

FINNING INTERNATIONAL INC.
ANNUAL INFORMATION FORM
2018

February 21, 2019

Finning International Inc.
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Vancouver, British Columbia
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In this Annual Information Form (AIF), the terms “our”, “us”, “its”, the “Company” and “Corporation” mean Finning International Inc. and “Finning” means Finning International Inc. together with its subsidiaries and operating divisions. The results reported in this AIF have been prepared in accordance with International Financial Reporting Standards (IFRS). All dollar amounts are Canadian dollars unless otherwise indicated. All information in this AIF is presented as at December 31, 2018, unless otherwise stated.

The 2017 comparative results described in this AIF have been restated to reflect the Company’s adoption of International Financial Reporting Standards (IFRS) 15, *Revenue from Contracts with Customers* and IFRS 9, *Financial Instruments* effective for the financial year beginning January 1, 2018. Details of the impact of IFRS 15 and IFRS 9 for the date of initial application and the 2017 comparative period can be found in note 2 of the Company’s annual consolidated financial statements.

FORWARD LOOKING INFORMATION

This report contains statements about Finning’s business outlook, objectives, plans, strategic priorities and other statements that are not historical facts. A statement the Company makes is forward-looking when it uses what the Company knows and expects today to make a statement about the future. Forward-looking statements may include terminology such as aim, anticipate, assumption, believe, could, expect, goal, guidance, intend, may, objective, outlook, plan, project, seek, should, strategy, strive, target, and will, and variations of such terminology. Forward-looking statements in this report include, but are not limited to, statements with respect to: expectations with respect to the economy, markets and activities and the associated impact on the Company’s financial results; expected profitability levels; anticipated strategic acquisition opportunities; anticipated organic growth opportunities; potential opportunities arising from stringent regulations on climate change; expected infrastructure projects in the regions where Finning operates; expected improvement in demand for equipment in Canada; expected infrastructure projects in British Columbia, Alberta and Saskatchewan; expected growth in the construction market in Argentina; expected revenue; expected free cash flow; implementation of a modern enterprise resource planning system for the South America business; expected engagement related to the development of the Vaca Muerta shale gas fields; expected oil and gas development at the Vaca Muerta shale gas fields; the U.K. government’s acceleration of infrastructure investments and approvals and the anticipated benefit to Finning; Finning’s commitment to developing a safe, engaged and inclusive workforce; return on invested capital; market share growth; expected results from operational excellence initiatives; expected results from customer-centric strategic plan; expected alignment of initiatives with the ‘Global Strategic Priorities’; expected profitability and free cash flow from cost reductions and sustainable improvements; anticipated asset utilization; expected results, revenue, plans and prospects for the Finning’s digital and technology solutions activities and other goals to enhance Finning’s online and digital business; plans to install various business process enablements and decision support systems; the Company’s practices regarding dividend payment; statements with respect to the Company’s intention to implement certain cyber security controls; anticipated benefits of the 4Refuel acquisition; the belief that the Company’s relationship with Caterpillar will continue to be strong; Caterpillar’s strong reputation, brand recognition and customer support; anticipated timing of formal bargaining with its unions; plans to focus on eliminating workplace injuries and incidents, reducing impact on the environment and community investment strategies; expected benefits from the Power to Lead program; the belief that the claims by the Argentina Customs Authority have no merit; anticipated steps to reduce the impact of the devaluation of the Argentine peso; anticipated economic

trends in Argentina; the expected returns and ability to fund its obligations from investments held in the defined benefit pension plans; future payments made for rating services; and intentions with respect to the Company's shareholder rights plan. All such forward-looking statements are made pursuant to the 'safe harbour' provisions of applicable Canadian securities laws.

Unless otherwise indicated by us, forward-looking statements in this report reflect Finning's expectations at the date of this AIF. Except as may be required by Canadian securities laws, Finning does not undertake any obligation to update or revise any forward-looking statement, whether as a result of new information, future events, or otherwise.

Forward-looking statements, by their very nature, are subject to numerous risks and uncertainties and are based on several assumptions which give rise to the possibility that actual results could differ materially from the expectations expressed in or implied by such forward-looking statements and that Finning's business outlook, objectives, plans, strategic priorities and other statements that are not historical facts may not be achieved. As a result, the Company cannot guarantee that any forward-looking statement will materialize. Factors that could cause actual results or events to differ materially from those expressed in or implied by these forward-looking statements include: general economic and market conditions; foreign exchange rates; commodity prices; the level of customer confidence and spending, and the demand for, and prices of, Finning's products and services; Finning's ability to maintain its relationship with Caterpillar; Finning's dependence on the continued market acceptance of its products, including Caterpillar products, and the timely supply of parts and equipment; Finning's ability to continue to improve productivity and operational efficiencies while continuing to maintain customer service; Finning's ability to manage cost pressures as growth in revenue occurs; Finning's ability to negotiate satisfactory purchase or investment terms and prices, obtain necessary approvals, and secure financing on attractive terms or at all; Finning's ability to manage its growth strategy effectively; Finning's ability to effectively price and manage long-term product support contracts with its customers; Finning's ability to reduce costs in response to slowing activity levels; Finning's ability to attract sufficient skilled labour resources as market conditions, business strategy or technologies change; Finning's ability to negotiate and renew collective bargaining agreements with satisfactory terms for Finning's employees and the Company; the intensity of competitive activity; Finning's ability to raise the capital needed to implement its business plan; regulatory initiatives or proceedings, litigation and changes in laws or regulations; stock market volatility; changes in political and economic environments for operations; Finning's ability to respond to climate change-related risks; the occurrence of one or more natural disasters, pandemic outbreaks, geo-political events, acts of terrorism or similar disruptions; fluctuations in defined benefit pension plan contributions and related pension expenses; the availability of insurance at commercially reasonable rates; the amount of insurance coverage will be adequate to cover all liability or loss incurred by Finning; the potential of warranty claims being greater than Finning anticipates; the integrity, reliability and availability of, and benefits from, information technology and the data processed by that technology; and Finning's ability to protect itself from cybersecurity threats or incidents. Forward-looking statements are provided in this report for the purpose of giving information about management's current expectations and plans and allowing investors and others to get a better understanding of Finning's operating environment. However, readers are cautioned that it may not be appropriate to use such forward-looking statements for any other purpose.

Forward-looking statements made in this report are based on a number of assumptions that the Company believed were reasonable on the day the Company made the forward-looking statements including but not limited to (i) that general economic and market conditions will be maintained; (ii) that the

level of customer confidence and spending, and the demand for, and prices of, Finning's products and services will be maintained; (iii) Finning's ability to successfully execute its plans and intentions; (vi) Finning's ability to attract and retain skilled staff; (iv) market competition; (v) the products and technology offered by the Company's competitors; and (vi) that our current good relationships with Caterpillar and with our suppliers, service providers and other third parties will be maintained. Refer in particular to the Outlook section of the Company's Management's Discussion and Analysis (MD&A) for forward-looking statements. Some of the assumptions, risks, and other factors that could cause results to differ materially from those expressed in the forward-looking statements contained in this report are discussed in Section 4 and in the annual MD&A for the financial risks.

Readers are cautioned that the risks described in the MD&A and AIF are not the only ones that could impact the Company. Additional risks and uncertainties not currently known to the Company or that are currently deemed to be immaterial may also have a material adverse effect on Finning's business, financial condition, or results of operations.

Except as otherwise indicated, forward-looking statements do not reflect the potential impact of any non-recurring or other unusual items or of any dispositions, mergers, acquisitions, other business combinations or other transactions that may be announced or that may occur after the date of this report. The financial impact of these transactions and non-recurring and other unusual items can be complex and depends on the facts particular to each of them. The Company therefore cannot describe the expected impact in a meaningful way or in the same way the Company presents known risks affecting its business.

1. CORPORATE STRUCTURE

1.1 NAME, ADDRESS AND INCORPORATION

The Company was incorporated as Finning Tractor & Equipment Company Limited on January 4, 1933, under the *Company Act* (British Columbia), and became a public corporation on September 2, 1969. The Company was continued under the *Canada Business Corporations Act* on October 8, 1986, and changed its name to Finning Ltd. on April 23, 1987, and to Finning International Inc. on April 25, 1997.

Finning International Inc. is a widely held, publicly traded corporation, listed on the Toronto Stock Exchange (symbol: FTT). The registered and head office of the Company is located at Suite 300 – 565 Great Northern Way, Vancouver, British Columbia, V5T 0H8 (telephone: 604.691.6444; fax: 604.871.8231 website: www.finning.com).

1.2 INTERCORPORATE RELATIONSHIPS

The Company's principal operating subsidiaries and divisions and the geographic areas they serve are noted below. As at December 31, 2018, there were no other subsidiaries of the Company the total assets of which represented more than 10% of the consolidated assets of the Company or the total revenues of which for the year then ended represented more than 10% of the consolidated revenue of the Company. Of those subsidiary companies that did not meet the 10% threshold, they did not, on an aggregate basis, have total assets or total revenues that exceeded 20% of the consolidated assets or revenue of the Company.

Finning International Inc.

- Canada – Reporting Segment
 - **Finning Canada** a division of Finning International Inc., servicing Western Canada with dealer territories in British Columbia, Alberta, Saskatchewan, the Yukon Territory, the Northwest Territories and a portion of Nunavut.
 - **OEM Remanufacturing Company Inc.** incorporated in Alberta, Canada; 100% owned by Finning.
- South America – Reporting Segment
 - **Finning Argentina S.A. and Finning Soluciones Mineras S.A.** both incorporated in Argentina, 100% owned by Finning and servicing Argentina.
 - **Finning Bolivia S.A.** incorporated in Bolivia, 100% owned by Finning and servicing Bolivia.
 - **Finning Chile S.A.** incorporated in Chile, 100% owned by Finning and servicing Chile.
 - **Moncouver S.A.** incorporated in Uruguay, 100% owned by Finning and offering shared services and centralized purchasing to Finning’s South American operations.
- UK and Ireland – Reporting Segment
 - **Finning (UK) Ltd.** incorporated in the United Kingdom, 100% owned by Finning and servicing England, Northern Ireland, Scotland and Wales.
 - **Finning (Ireland) Limited** incorporated in the Republic of Ireland, 100% owned by Finning, and servicing the Republic of Ireland.

2. GENERAL DEVELOPMENT OF THE BUSINESS

2.1 OVERVIEW OF OPERATIONS

Finning is a Canadian-based international company. Finning’s principal business is to provide sales, rentals, parts and support services for Caterpillar Inc. (Caterpillar or CAT) equipment and engines and complementary equipment on three continents. Finning is the largest dealer of Caterpillar products in the world and is the authorized dealer of Caterpillar products in Western and Northern Canada (as described further below), the United Kingdom, the Republic of Ireland, and the southern cone of South America. At December 31, 2018, Finning had 13,146 employees worldwide. Other businesses carried on by Finning are complementary to the CAT dealership business and are referred to elsewhere in this AIF.

Canada

The Company has been the authorized dealer for Caterpillar products in British Columbia since 1933 and in the Yukon Territory since 1977. The Company became the authorized Caterpillar dealer for Alberta and a portion of the Northwest Territories in 1989. In 1995, the Company gained additional territory in the north, making the Company the Caterpillar dealer for an area covering all of the Northwest

Territories and the portion of Nunavut west of 110 degrees west longitude. In July 2015, the Company became the authorized Caterpillar dealer in Saskatchewan, upon acquiring the operating assets of the previous Caterpillar dealer in that province. See Section 2.2.2. “Developments in the Business over the Last Three Years”. The Company services its Canadian dealership territory through its Finning Canada division.

South America

Finning acquired its first Caterpillar dealership territory in South America by becoming the authorized Caterpillar dealer for Chile in August 1993. Finning became the authorized Caterpillar dealer for Argentina in January 2003 and for Bolivia in April 2003. In March 2004, the Company formed a company in Uruguay, now known as Moncouver S.A., which provides shared services and centralized purchasing services for Finning’s South American operations.

UK and Ireland

In 1983, Finning acquired two Caterpillar dealerships in Great Britain and acquired a third U.K. dealership in October 1997. In August 2010, Finning was appointed the Caterpillar dealer for Northern Ireland and for the Republic of Ireland. Finning is consequently the authorized Caterpillar dealer for all of the U.K. (England, Northern Ireland, Scotland and Wales) and the Republic of Ireland.

2.2 BUSINESS DEVELOPMENT

The following is a summary of significant developments in the strategy of the Company and in each of the Company’s core operating segments.

2.2.1 Strategic Plan

Finning was founded in 1933 and has been part of Caterpillar’s global dealer network ever since.

In 2016, Finning developed a strategic plan that placed the customer at the centre, and that included new purpose and vision statements to guide the customer-centric strategy. Finning’s purpose and vision statements are:

Purpose: *‘We believe in partnering and innovating to build and power a better world’.*
Vision: *‘Leveraging our global expertise and insight, we are a trusted partner in transforming our customers’ performance’.*

Finning’s customer-centric growth strategy is based on three pillars:

- Develop - build a safe, talented, and inclusive team.
- Perform - operate efficiently, consistently and with agility.
- Innovate - lead with new ideas, processes and solutions.

In 2017, Finning further evolved its strategic plan to provide a shared, global strategic planning and prioritization framework across its operations in the form of the following five Global Strategic Priorities (GSPs):

- Customer Centricity – be our customers’ trusted partner by providing consistent and innovative services that add value to their business;
- Lean & Agile Global Finning – maintain relentless focus on productivity, efficiency, and our customers’ total cost of equipment ownership;

- Global Supply Chain – transform our globally-leveraged supply chain to enhance the omni-channel customer experience while increasing working capital efficiencies and generation of free cash flow;
- Digital Enterprise – advance the use of technology to improve our customers’ experience, enable data-driven decisions, and reduce cost to serve; and
- Growth & Diversification – achieve profitable and capital efficient growth.

In 2017, Finning also reviewed and revised its values, with input from its employees. The values supporting the strategic framework are: we are trusted, collaborative, innovative and passionate. Execution of this strategy is expected to generate greater customer value, contribute to the Company’s financial goals, and support achievement of Finning’s vision.

The Company’s capital investments and allocation of resources are focused on initiatives that we believe best align with the five GSPs.

2.2.2 Developments in the Business over the Last Three Years

2018

▪ Corporate Priorities

In 2018, the GSPs continued to drive the operational priorities across Finning. These included development of customer centric products and solutions that combined data and insights with Finning’s domain expertise and product support capabilities, growing Finning’s e-commerce business, accelerating Finning’s omni-channel capabilities, and further optimizing our physical infrastructure with a focus on operating efficiencies.

▪ Growth

In February 2019, Finning completed the acquisition, announced in December 2018, of 4Refuel Canada and 4Refuel US, through the acquisition of all of the outstanding shares of their ultimate parent, Owl Holdco RF Limited. 4Refuel is a mobile on-site refueling service provider with operations in most of the provinces in Canada and in Texas. This acquisition is a complementary bolt-on acquisition that provides Finning with the opportunity to sell equipment, product support, rental and more value-added services to a customer base not currently taking advantage of Finning’s full suite of services. It will also provide 4Refuel with the opportunity to sell fuel services to Finning’s 18,000 plus customers enabled, in part, by connectivity. See Section 2.2.3 “Growth by Acquisitions”.

The analytics capabilities of Finning’s digital business were further strengthened in 2018, to enable enhanced data-driven insights with the goal of improving customer equipment performance and achieving new visibility into Finning’s operations. Analytics investments have focused on areas such as supply chain performance and forecasting capabilities, as well as labour efficiency and pricing optimisation. There was continued significant growth in the number of connected assets in our addressable machine population.

▪ Market Conditions

Canadian Operations - in Canada, the Company experienced robust activity levels across all mining segments, namely oil sands, coal and base and precious metals. Mining producers and

contractors generated strong demand for equipment and product support, including component rebuilds. Demand for power systems products, parts and service was robust, mainly driven by activity in the oil and gas sector, particularly gas compression. Strong construction activity across all provinces resulted in increased equipment and product support sales.

South American Operations - in Chile, increased copper production and fleet utilization had a positive impact on demand for mining equipment and product support. The Chilean government announced plans to invest in infrastructure, which are expected to generate improved construction equipment and product support activity levels. In Argentina, the currency and economy weakened considerably during the year and the government curtailed infrastructure spending. The Company expects oil and gas development at Vaca Muerta to proceed and provide meaningful upside for future equipment and product support demand.

UK & Ireland Operations - in the U.K., uncertainty remained around the impact of a possible change in the trade relationship with the European Union as a result of the U.K.'s vote in 2016 to terminate its relationship with the European Union (Brexit). The impact on customer confidence and future investment decisions continues to be mitigated by the U.K. government's investment in large-scale rail, power, road, and airport infrastructure projects.

▪ **Financing and Other Corporate Financial Initiatives and Significant Events**

In December 2018, the Company amended its existing \$1 billion credit facility, which was set to fully mature in October 2022, by, among other things, extending the maturity date to December 2023 and increasing the credit facility commitment to \$1.3 billion. See section 11, Material Contracts, for additional information.

In May 2018, the Company increased its regular quarterly dividend by 5.3% to \$0.20 (indicated annual dividend of \$0.80 per share). The Company paid total annual dividends in 2017 and 2016 of \$0.745 per share and \$0.73 per share, respectively. The Company's annual dividend has increased every year since 2001.

The Company has had a normal course issuer bid (NCIB) in effect since May 2015, which is subject to annual renewal in May each year. In May 2018, the Company renewed its NCIB, which will expire on May 10, 2019, to permit the purchase for cancellation up to 3,000,000 common shares in the capital of the Company (common shares). In November 2018, the Company amended its NCIB to increase the number of common shares available for purchase for cancellation to 5,300,000 common shares. In December 2018, the Company announced it had entered into an automatic share purchase plan with a designated broker, effective as of January 1, 2019. During 2018, the Company repurchased 4,128,053 common shares for cancellation at an average cost of \$26.41 per share, or \$109 million in the aggregate.

Following the Company's review of its investment in Energyst B.V. (Energyst), it was determined that Energyst was no longer a strategic fit and that it was held-for-sale at September 30, 2018. As a result, the Company wrote off its investment and released cumulative foreign translation losses to the income statement upon the sale by Energyst of its wholly-owned subsidiary in Argentina in Q3 2018.

▪ **Board of Directors**

In May 2018, Kevin Neveu and John Reid, retired from the Board of Directors of the Company (Board), after serving as directors for 4 ½ and 12 years respectively.

In December 2018, the Company announced the retirement of Douglas W.G. Whitehead as Board Chair and as a member of the Board effective January 15, 2019, after ten years of service as a director and eight years before that also as Chief Executive Officer. Hal Kvisle was appointed Board Chair to succeed Mr. Whitehead. In December, 2018, the Company also announced the appointment of Edward R. Seraphim as a director, also effective January 15, 2019. Mr. Seraphim is Chief Executive Officer of West Fraser Timber Company Limited, where he has held progressively senior executive roles since 1997.

▪ **Executive Management**

In August 2018, the Company announced the retirement of Juan Carlos Villegas, President of Finning Canada and Chief Operating Officer of Finning International Inc., effective December 31, 2018, and the appointment of Kevin Parkes as President of Finning Canada and David Primrose as Managing Director of Finning UK and Ireland, both effective January 1, 2019.

2017

▪ **Corporate Priorities**

In 2017, Finning's priorities were to transform its global supply chain, grow product support from its large installed equipment population, improve the financial performance of its rental business, accelerate delivery of innovative customer solutions, improve customer experience and generate new revenue opportunities through our integrated customer-focused digital and technology solutions.

▪ **Growth**

In 2017, Finning's digital and technology solutions business saw strong growth in its services and significantly increased its capabilities. Progress was made in all aspects of the business to provide on-line sales, connect equipment and generate actionable insights from data analytics for customer operations and Finning's internal processes. Finning saw significant growth in online over-the-counter parts sales, in the number of e-commerce and integrated procurement transactions and in the number of connected assets in our addressable machine population.

▪ **Market Conditions**

Finning's South American and Canadian operations saw improved activity levels in 2017, with the recovery of commodity prices resulting in increased mining activity, increased fleet utilization and a strengthening demand for parts, service and component rebuilds. In Argentina, we saw growth in new equipment sales to the construction sectors. In the U.K., while Brexit resulted in economic uncertainty, demand for construction and power systems equipment remained robust. All three regions saw significant opportunities in infrastructure work.

In September 2017, Dominion Bond Rating Service (DBRS) reconfirmed the Company's BBB (high) long term rating, reflecting the Company's improved performance supported by strong market fundamentals and diversified operations.

In December 2017, Standard & Poor's (S&P) re-affirmed the Company's BBB+ rating and revised its outlook from negative to stable, noting the Company's strong market position as the largest Caterpillar equipment dealer, its diversification by geography and its earnings stability driven by the after-sales parts and service business.

▪ **Financing and Other Corporate Financial Initiatives and Significant Events**

In October 2017, Finning entered into an unsecured committed \$1 billion credit facility agreement with a syndicate of banks to replace the previous facility which was set to mature in October 2020. The amendments to the credit facility extended the maturity date to October 2022, added Finning (Ireland) as a borrower and enabled the addition of other Finning subsidiary companies as borrowers in the future. The credit facility provides a source of financing for Finning's global operations.

In September 2017, Finning issued \$200 million of 2.84% senior unsecured notes due September 29, 2021. The Company used the proceeds from the issuance of these notes to partly fund the early redemption of the Company's \$350 million of 6.02% medium term notes (MTN) due June 1, 2018.

In August 2017, the Company increased its regular quarterly dividend to \$0.19 (indicated annual dividend of \$0.76 per share) for a total annual dividend of \$0.745 per share, a 2.0% increase over the previous year.

During 2017, under the NCIB in effect at that time, the Company repurchased 89,900 common shares for cancellation at an average cost of \$25.45 per share, or \$2.3 million in the aggregate.

In May 2017, the Company amended and restated its rights agreement (Rights Agreement) between the Company and Computershare Investor Services Inc. (Computershare). The Rights Agreement will expire automatically after a three-year term ending in May 2020. The Rights Agreement sets out the terms and conditions of the Company's shareholder rights plan and is described in more detail in the Company's 2017 Management Proxy Circular dated March 15, 2017.

In 2017, the Board approved, and the shareholders ratified, an amended and restated form of the Corporation's By-law No. 1 to permit the issuance of uncertificated shares, so that Finning is able to participate in the Direct Registration System and enable electronic settlement of transactions in its shares. A copy of the Amended and Restated By-law No. 1 has been filed under the Company's profile on the Canadian System for Electronic Document Analysis and Retrieval (SEDAR) at www.sedar.com.

▪ **Board of Directors**

In December 2017, Mary Lou Kelley was appointed to the Board, effective January 1, 2018. Ms. Kelley was formerly President, e-commerce of Best Buy Company from 2014 to 2017.

In July 2017, Harold N. Kvisle was appointed to the Board. Mr. Kvisle was formerly President and CEO of Talisman Energy Inc. from 2012 until his retirement in 2015.

On February 9, 2017, Douglas W.G. Whitehead replaced Michael M. Wilson as Board Chair. Mr. Wilson was Board Chair from May 4, 2016, but stepped down as Board Chair upon electing to assume new obligations.

2016

▪ **Market Conditions**

In an environment of continued uncertainty in market conditions in 2016, Finning implemented a plan to improve its supply chain and service delivery to streamline processes and increase customer loyalty. In response to the continued decline in market activity across all its operations, Finning reduced its global workforce by 9% in 2016. Additional facilities were closed permanently as Finning worked to align its cost structure to reduced business volumes and to position itself for sustainable improvements in profitability.

In March 2016, DBRS downgraded the Company's long-term rating to BBB (high) from A (low) and changed the trends on all ratings to stable. The change was primarily due to the difficult operating environment in key mining and energy sectors and weakness in commodity markets in Finning's territories.

▪ **Growth**

To respond to the market opportunity presented by the emerging importance of digitally enabled value-added services and marketing and sales programs in the buying decisions of equipment operators and owners, and to enhance the customer experience, in January 2016, the Company launched its digital and technology solutions business. The mission of this business is to provide online sales of parts, equipment and services, digitally connect equipment to transmit live data and create insights using data analytics to improve performance efficiencies for customers' operations and Finning's internal processes.

▪ **Financing and Other Corporate Financial Initiatives and Significant Events**

The Company made no repurchases in 2016 under its NCIB in effect during that time.

▪ **Board of Directors**

In November 2016, Vicki L. Avril was appointed to the Board. Ms. Avril was formerly the President and CEO of IPSCO Tubulars Inc. from 2008 until her retirement in 2013.

In March 2016, Stuart L. Levenick was appointed to the Board. Mr. Levenick retired from Caterpillar Inc. in 2014 after 37 years, including 10 years as Group President.

▪ **Executive Management**

In November 2016, the Company appointed Jane Murdoch as Corporate Secretary, in addition to her role as General Counsel. Ms. Murdoch joined the Company in April 2016.

In February 2016, Kevin Parkes was appointed as Managing Director of Finning UK and Ireland. Mr. Parkes succeeded Neil Dickinson who served as Managing Director from 2010 until his retirement in February 2016.

In January 2016, the Company appointed Chad Hiley as Chief Human Resources Officer, in addition to his role as Senior Vice President, Human Resources for Finning Canada. Mr. Hiley succeeded Gillian Platt who served as Chief Human Resources Officer of the Company from July 2014 until her retirement in January 2016. Mr. Hiley joined Finning Canada in 2014.

2.2.3 Growth by Acquisitions

As part of its overall strategic plan, Finning regularly examines opportunities to acquire complementary businesses. Finning generally targets regions and markets where it can provide substantial customer value through its extensive expertise in its principal markets of mining, construction (including pipeline and oil field development) and power generation. Finning has made strategic investments to support market growth areas and operational excellence.

Acquisitions in existing and adjacent territories enable Finning to lever industry expertise in those markets and local knowledge, such as language, regulatory environment and business practices. As an example, following its 1993 acquisition of the Chilean Caterpillar dealership, Finning's presence in the southern cone of South America provided the opportunity to purchase dealerships in the neighbouring countries of Argentina and Bolivia in 2003. Similarly, in 2010, Finning's presence in the U.K. provided the opportunity to purchase the adjacent Ireland dealerships and in 2015, Finning Canada expanded its Western Canada territory by adding the adjacent Saskatchewan dealership. By transferring expertise from its existing operations to the newly acquired dealerships, Finning benefits from improved financial and operating performance of these dealerships.

Acquisition growth opportunities are also focused on investing in complementary businesses that enhance our ability to serve customers, reduce our cost to serve and strengthen the capabilities that are required to deliver our strategy. In February 2019, the Company completed its acquisition, announced in December 2018, of 4Refuel, a leading mobile on-site refueling service provider with operations across most of the provinces of Canada and in Texas. This acquisition will allow Finning to provide a mission critical service that enhances our customers' productivity, efficiency and safety, while also reducing our cost to serve and providing us with enhanced supply chain capabilities. 4Refuel represents a strategic acquisition that is complementary to our core business, while also furthering our GSP of Growth and Diversification.

Acquisition growth opportunities have also arisen in the form of global equity investments in businesses involving Caterpillar products such as the Company's investment in Pipeline Machinery International LLC (a 25% investment serving the global pipeline industry).

Finning will continue to evaluate similar opportunities and consider additional acquisitions that meet its financial and strategic goals.

2.2.4 Organic Growth Opportunities

Finning also has organic growth opportunities in each of its existing territories. These opportunities include growth from the launch of new Caterpillar products and technologies. As the size of the Caterpillar fleet in Finning's geographic regions grows, there is an increased opportunity to offer product support solutions such as long-term parts and service maintenance contracts, digitally enabled value added services and rebuilds.

It is expected that, as Finning's digital and technology solutions business progresses, advanced digital capabilities to market product and services, trade online within an omni-channel strategy, and performance solutions will afford organic growth opportunities for new equipment, parts and service. Additionally, it is expected that market opportunities exist for new revenue streams as Finning offers data and insight driven performance solutions to equipment owners.

The magnitude and timing of organic growth opportunities are impacted by economic conditions, commodity prices and government policies in the regions in which Finning operates.

Canada

In Western Canada, Finning has a significant presence as a supplier of large mobile equipment to oil sands producers and contractors. In 2018, the Company saw market recovery, especially in the mining and oil and gas sectors. Continued recovery will be dependent on commodity markets and on timing of significant infrastructure projects.

In 2017, Finning focused on its rental, used and new strategy, with the goal of improving the profitability of new, used and rental equipment. The strategy included refocusing the Company's fleet on core earth moving equipment and associated complementary rental equipment. In support of the strategy and to align with market demand, the Company increased its investment in its rental fleet. The demand for equipment, whether through direct sale or rental, is expected to continue to improve, however, the equipment landscape will remain highly competitive.

Mining activity continues to generate strong demand for parts and service, including component rebuilds. In British Columbia, demand for core equipment remains robust as some significant infrastructure projects, such as the LNG Project and BC Hydro's Site C Project, appear to be moving forward despite uncertainty affecting other projects such as the TransMountain pipeline, which is on hold, and as lumber prices stabilize after hitting historical highs. In Alberta, the lack of pipeline infrastructure has significantly impacted the oil and gas sector, which has prompted the Alberta government to mandate production cuts and the purchase of rail cars for oil export. In Saskatchewan, the market appears to be recovering and the government has announced infrastructure projects that are expected to keep demand for equipment steady.

Product support activity continues to be strong in the heavy construction and pipeline sectors in all provinces where Finning operates. Finning continues to sell equipment into the oil sands, and has equipment deliveries for long-term projects scheduled in this area despite low oil prices. Demand for power systems equipment and product support has remained steady as the market has recovered.

South America

In South America, market conditions remain challenging, as concerns regarding copper prices and higher production costs continue to delay investment in new projects. New equipment sales to the mining sector have improved, mostly to replace obsolete fleet. Mining fleet utilization provides stability and opportunities for our product support business, including component rebuilds. In Chile, construction activity appears to be recovering and the government continues to analyze public infrastructure projects.

Argentina has been impacted by an economic crisis that started in the second quarter of 2018, with an abrupt interest rate hike and the significant devaluation of the local currency. The government reached out to the International Monetary Fund for help and has been taking measures to reduce public spending. Economic growth stopped and a negative GDP growth has been forecasted. Finning expects this situation to extend into the first half of 2019 and progressively evolve into positive growth in the second half of the year. Despite these challenges, the Argentina government is still promoting both private and public investment in infrastructure and anticipates that oil and gas development will continue to accelerate. In the medium-term, Finning expects to support customers engaged in infrastructure projects connected to the development of the Vaca Muerta shale gas project.

Finning continues to experience solid demand for energy solutions in South America. Energy demand presents a growth opportunity for Caterpillar products in the three South American countries in

which Finning operates. Finning is leveraging its expertise to supply energy solutions to various industries such as petroleum, mining and energy production.

U.K. and Ireland

In the U.K. and Ireland, the equipment market has undergone a structural shift away from the coal mining and oil and gas sectors towards general construction and power systems. In response to this shift, Finning has restructured its operating model to lower its cost structure and increase its supply chain velocity.

In 2016, the U.K. voted to exit the European Union (Brexit). Significant uncertainties around the impact and final outcome resulted. While Brexit has not materially impacted activity levels to this point, it has resulted in a devaluation of the British pound and continued economic uncertainty. The official Brexit date is March 29, 2019, however at the close of 2018 exit terms had still not been agreed and negotiations continue with the European Union and within the U.K. government. To help offset reduced business confidence, the U.K. government is accelerating infrastructure investments and approvals, which are expected to provide long-term growth opportunities for Finning. While activity levels in the quarrying, general construction and plant hire sectors generate robust demand for new equipment and product support, competitive pricing pressure remains intense. Several sectors in the U.K. have experienced increasing levels of demand due to the devaluation of the British pound, particularly in export focused markets like industrial and commercial marine engines and used equipment. Finning continues to see significant opportunities in electric power capacity and combined heat and power and data centre markets.

3. DESCRIPTION OF FINNING'S BUSINESS

3.1 PRINCIPAL BUSINESS UNITS

Finning has diversified its business through different geographic areas, different lines of business based on the product or service supplied, and different end-use customers and markets. As a result of this diversification, earnings and cash flow are less exposed to fluctuations in business or economic trends that impact a specific geography, customer or market. While revenues reported by each reporting segment are mainly derived from business within their designated territories, opportunities exist outside those territories for international power systems projects, pipeline business and used equipment sales. The table below provides details of revenue by reporting segment and lines of business.

Revenues for year ended December 31, 2018 (\$ millions)	Canada	South America	UK & Ireland	Consolidated
Product support	\$ 1,997	\$ 1,348	\$ 287	\$ 3,632
New equipment	1,288	714	738	2,740
Used equipment	233	54	84	371
Equipment rental	154	50	35	239
Other	2	4	8	14
Total	\$ 3,674	\$ 2,170	\$ 1,152	\$ 6,996
Revenue percentage by operations	53%	31%	16%	100%

Canada: Revenue from the Canadian operating segment was \$3,674 million in 2018 compared with \$3,072 million (restated, see page 4) in 2017. Finning Canada serves customers operating in a

number of principal markets, including mining (which includes the Alberta oil sands), construction, conventional oil and gas, forestry and power systems.

South America: Revenue from the South American operating segment was \$2,170 million (U.S. \$1,675 million) in 2018 compared with \$2,157 million (restated, see page 4) (U.S. \$1,665 million restated, see page 4) in 2017. Finning South America serves customers operating in a number of principal markets, including mining, construction and power systems.

U.K. and Ireland: Revenue from the U.K. and Ireland operating segment was \$1,152 million (£667 million) in 2018 compared with \$1,027 million (restated, see page 4) (£613 million restated, see page 4) in 2017. Finning UK and Ireland serves customers operating in a number of principal markets, including mining, quarrying, construction, oil and gas, marine, industrial and electric power systems.

3.2 PRODUCTS & SERVICES

Finning's operations in Canada, South America, and the U.K. and Ireland offer products and services through four principal lines of business: product support, new equipment sales, used equipment sales and equipment rental. The following table summarizes the Company's revenue by principal lines of business:

REVENUE BY PRINCIPAL LINES OF BUSINESS

Revenues:

(\$ MILLIONS)

	<u>2018</u>		<u>2017</u> <u>(restated, see page 4)</u>		CHANGE			
Product support	\$	3,632	52%	\$	3,481	55%	\$	151
New equipment		2,740	39%		2,175	35%		565
Used equipment		371	5%		359	6%		12
Equipment rental		239	4%		228	4%		11
Other		14	0%		13	0%		1
Total	\$	<u>6,996</u>	100%	\$	<u>6,256</u>	100%	\$	<u>740</u>

Below is a brief description of the Company's products and services offered through the principal lines of business.

3.2.1 Product Support

Finning provides replacement parts and maintenance and repair services for the products it sells. A high level of customer service is essential to Finning's long-term success and a continued emphasis on customer service promotes dedicated and customized solutions to meet customers' unique needs. These solutions are often provided under long-term contracts entered into at the time the equipment is sold, which increases the stability and predictability of Finning's future revenues and cash flows. In addition, Finning offers customers the service of rebuilding and refurbishing their aging equipment fleets to a new condition, to extend their fleet's operating life and help them defer major capital expenditures during times of economic uncertainty.

Through digitally connecting equipment to transmit live data, then using data analytics to provide live information to the many equipment and condition monitoring experts among Finning's technical workforce, Finning is working to create and provide insights that will allow performance efficiencies for

both our customers' equipment and Finning's internal processes. Finning is also working to enhance online business to business capabilities and operate both online and physical channels in an omni-channel strategy going forward. Finning expects that, over the coming years, this strategy will allow Finning to increase the percentage of total sales of equipment, parts and service that are transacted online by our customers.

Finning maintains parts inventory throughout its locations in Western Canada, South America, and the U.K. and Ireland to provide customers with convenient access to a supply of parts. All major Finning centres within each geographic area are connected through information systems, which provide timely information on both Finning and Caterpillar parts inventories.

In each of its regions, Finning employs qualified mechanics, welders, technicians, parts persons and other specialized tradespersons dedicated to product support. These specialized tradespeople comprise approximately 37% of Finning's workforce in Canada, approximately 49% of Finning's workforce in South America; and approximately 41% of Finning's workforce in the U.K. and Ireland.

In addition to the in-shop capability at Finning locations, Finning provides service at customer locations with specialized personnel and equipment. Many of Finning's customer sites are in remote locations at very high altitudes or experience severe climatic conditions. Finning believes it has consistently demonstrated its ability to successfully maintain and service equipment under these conditions, enhancing its reputation as a full service provider to its customers. Finning offers its customers maintenance and repair contracts for preventive maintenance, planned and guaranteed component replacement and guaranteed cost-per-hour contracts.

To meet the continuing demand for component replacement arising from the modular design of Caterpillar's products, Finning extensively uses remanufactured components sourced from Caterpillar. In addition, Finning has centralized component remanufacturing centres in Edmonton, Canada; Leeds, England; Antofagasta, Chile; and Buenos Aires, Argentina, where trained technicians dismantle, test, repair and replace worn components. This centralization, through specialization and volume, creates economies of scale, resulting in Finning being able to offer lower prices for customers. The remanufactured components are used in repairs or in an exchange program whereby the customer replaces a worn component with a repaired or remanufactured component at specified intervals before failure, maximizing machine availability at an attractive cost compared to new replacement components.

3.2.2 New Equipment

Finning distributes, through sale or rental, new Caterpillar products, including tractors, off-highway trucks, drills, electric rope shovels, hydraulic excavators and drag lines, backhoe loaders, excavators, forklifts, articulated trucks, loaders, log loaders, tree harvesters, skidders, motor graders, paving products, compactors, wheel tractor-scraper, pipe layers, extensive underground equipment and products complementary to Caterpillar-branded products.

Finning also sells and rents new Caterpillar-branded and non-branded engines and power systems for use in electric power generation, oil and gas, marine, and industrial applications and supplies complete or partial power systems engineering projects to customers.

3.2.3 Used Equipment

Finning generates used equipment sales from its rental fleet and buys and sells used equipment both domestically and internationally. Finning believes this full life cycle approach allows Finning to maximize the competitive advantage of Caterpillar equipment in the marketplace while offering customers full

flexibility. Machines are accepted in trade, received from the rental fleet, and purchased from customers and others on the open market. Some of this equipment is reconditioned or rebuilt in Finning's service shops or rebuild centres and resold under a short-term warranty program. Finning also purchases and sells entire fleets of used equipment and sells used equipment on consignment or through auctions. Used equipment demand varies depending on general economic conditions, new product availability, customer buying preferences, and currency exchange rate considerations. The used equipment business is generally focused on the products and types of equipment for which Finning is a dealer. Finning has developed expertise in the used equipment market which can contribute to attractive margins on dispositions from its rental fleet.

3.2.4 Equipment Rental

In addition to offering direct purchase, Finning offers customers the ability to rent on a short-term or medium-term basis. Finning owns fleets of equipment for rental through its dealerships operating under the name The CAT Rental Store. Finning also provides customers with equipment under term rental agreements that include an option to purchase the equipment.

Rental agreements range from short-term arrangements that provide customers with the flexibility to access reliable equipment to meet short term needs, to longer term arrangements that provide customers with the ability to have reliable equipment available at all times without having to invest the capital required to own the equipment.

During peak periods, the rental fleet in the dealership business can be used to satisfy heavy customer demand, particularly during periods of longer lead times when customers are waiting for new product to be delivered. When slower economic conditions exist, customers may use the rental fleets to continue working while deferring capital expenditures on new equipment fleets until markets improve. Rental revenues are generally driven by general economic conditions and construction related demand.

Canada: operates three rental fleets. The heavy rental fleet is operated through the dealership network and focuses mainly on mid to large size Caterpillar earth moving equipment, such as track-type tractors, articulated trucks, wheel loaders and excavators, primarily for the construction and oil and gas industries. The power generation rental fleet services a wide variety of customers for larger temporary power generation applications. The CAT Rental Stores, through their 15 locations, offer rental products to Finning Canada customers that include smaller Caterpillar earth moving equipment and forklifts, as well as work platforms, light towers, power generation and distribution equipment, heat products, air compressors and various other non-Caterpillar branded equipment.

South America: maintains a rental fleet consisting of motor graders, compactors, excavators, backhoe loaders, tractors, compressors, power generators, aerial work platforms and light towers. The rental business mainly serves customers in the construction and mining industries. Tractors rented by construction companies and involved in highway construction and pre-mining activities dominate the fleet. The South American rental operations offer these Caterpillar products, as well as select non-Caterpillar products, through their 19 CAT Rental Store locations and selected dealership branches.

UK and Ireland: maintains a fleet of rental equipment for rental contracts that are normally more long-term in nature. The fleet consists mainly of larger equipment such as wheel loaders and

articulated and rigid chassis dump trucks. Customers served include quarrying and construction companies, as well as waste and recycling customers. All rentals of equipment are facilitated through the dealership locations.

3.3 PRINCIPAL MARKETS

Finning serves customers operating in diverse markets, including mining and quarrying, construction (including pipeline and oil field development), power generation, and forestry. Customers include private enterprise and government. Finning has established industry and product specialists for the major markets in the geographic regions in which it operates.

Canada

Finning's Canadian operations span British Columbia, the Yukon Territory, Alberta, Saskatchewan, the Northwest Territories and a portion of Nunavut. In these regions, Finning Canada serves diverse markets, such as mining (including the oil sands), agriculture, quarrying, forestry, construction, pipeline, conventional oil and gas, government sector, marine transportation, fisheries, and commercial transport. The most significant markets served by Finning Canada are as follows:

Mining: provides products and services for use in development of the Alberta oil sands and the mining of coal, copper, molybdenum, gold, diamonds, silver, lead, zinc, potash, uranium and other metals and minerals. Most of the mining is done by open pit method, which lends itself to the application of large off-highway trucks, shovels, tractors, loaders, graders and draglines. Finning's surface mining products include drills, electric rope shovels, hydraulic excavators and draglines. In addition, the Company provides extensive underground mining equipment. Operations in remote areas also require electric power generation equipment. High-hour usage of equipment in demanding applications creates substantial demand for parts and repair services from this market sector.

Construction: provides products and services for use in the building and maintenance of highways, railway extensions, site development, residential and commercial construction, installation of utility services and similar projects.

Conventional Oil and Gas: provides products and services including mobile earthmoving equipment for use in exploration and drill site preparation and excavators and pipe layers for use in gathering and delivery systems. In addition to its Western Canada market exposure, Finning has access to supply both purpose built pipeline and traditional Caterpillar products to the global pipeline construction market through its 25% investment in Pipeline Machinery International LLC.

Forestry: provides products and services for use in road building, harvesting and processing trees, silviculture, log transport to mills and ports and the handling of logs, lumber and finished products in mill yards.

Power Systems: provides products and systems for use in oil and gas exploration and production, electric power generation and marine and industrial applications. Oil and gas markets include drilling, hydraulic fracturing, well servicing and gas compression, with particular applicability in high horsepower applications. Electric power generation markets include power for remote communities and mines, local specialized power projects, camp power and electric power rentals. Increasing market demand for natural gas and dual gas/diesel power solutions represents growth

opportunities across all markets. Increasing marine shipbuilding activity will also be a growth opportunity over the next few years.

South America

Finning's South American operations serve a variety of markets in Chile, Argentina and Bolivia, including mining, construction, forestry, oil and gas, marine and electric power generation, the most significant of which are:

Mining: provides products and services mainly to copper, coal, gold and iron ore mines. These mine sites require fleets of off-highway trucks, loaders, tractors and other support equipment and often include long-term agreements for equipment maintenance. Finning's surface mining products include drills, electric rope shovels and hydraulic excavators. In addition, the Company provides extensive underground mining equipment. High-hour usage of equipment in demanding applications creates substantial demand for parts and repair services from this market sector.

Construction: provides products and services to the construction industry involving road construction and maintenance projects, and to mine site preparation and infrastructure projects, as well as to residential and commercial construction.

Forestry: provides products and services in the southern half of Chile and the northeast of Argentina for road building, logging, log transportation and the handling of logs, lumber and finished products in yards, mills and port facilities.

Power Systems: provides products and systems for use in electric power generation, oil and gas and marine power. Finning's electric power generation market has grown through sales of engines, generator sets and custom engineered power solutions for primary, stand-by or turnkey applications for customers engaged in various dry-land markets, including mining, oil and gas, telecommunications, utilities and general construction. Finning also provides marine propulsion systems to the fishing industry and the Chilean Navy.

UK and Ireland

Finning's operations in the U.K. and Ireland also serve diverse markets, with the principal contributors to revenue being the quarrying, power and energy and construction sectors.

Mining and Quarrying: provides products and services for use in site reclamation, quarrying of limestone, granite and clay and extraction of sand and gravel, and some coal mining.

Power Systems: provides products and systems for use in electric power generation, marine power, industrial applications and oil and gas. Electric power generation orders continue to be strong in such markets as the electric capacity market and mission critical power for commercial applications such as hospitals and data centres. Additional markets served in the U.K. are pleasure craft and commercial marine, which purchase engines for vessels manufactured in the U.K. and sold around the world, as well as certain industrial sectors (such as rock crushing), offshore oil platforms and the shipping industry.

Construction: provides products and services for use in highway construction and maintenance, residential and industrial development, demolition, landscaping, waste and recycling landfill sites and recycling centres. An important customer group that serves the construction industry is plant

hire or rental. Plant hire companies supply machinery and tools for a limited, yet flexible, period of time to end users.

3.4 DISTRIBUTION METHODS

Finning operates through an extensive network of branch locations and field representatives, and at customer mine sites. Finning's operations are represented across its territories by approximately 202 locations, of which approximately 21% are owned, with the balance held under lease.

Finning's operations place a strong focus on providing customer support solutions to end-users. An efficient parts distribution network and a skilled workforce are key to achieving service excellence. The distribution network operated by each operating segment can be summarized as follows:

Canada: Caterpillar's distribution facility in Spokane, Washington, USA is the main distribution centre for Finning Canada, other than for the Saskatchewan business. Delivery routes are direct from this warehouse or via regional distribution centres throughout Finning's territory, including the main regional distribution centre in Nisku, Alberta, which is managed by an independent logistics provider. In Saskatchewan, parts are primarily sourced from Caterpillar's distribution facility in Morton, Illinois.

South America: Parts are primarily sourced from the Caterpillar parts distribution centres in Miami, Florida and Piracicaba, Brazil and are shipped by ocean and air to Finning's parts distribution centres in Antofagasta, Chile and Buenos Aires, Argentina and warehouses in Santa Cruz and La Paz, Bolivia. Through independent sub-contractors, a dedicated fleet of trucks makes daily deliveries of new parts and remanufactured components to all branches.

U.K. & Ireland: Parts are primarily sourced from the Caterpillar parts distribution centre in Grimbergen, Belgium. These parts are stored in a U.K. national distribution centre in Cannock, England and are redistributed to branches throughout the U.K. and Ireland by Finning's interbranch transport network, which is operated by an independent contractor or delivered directly to customers through national logistic companies.

3.5 EMPLOYEE DEVELOPMENT

Finning's ability to succeed over time depends on the strength and capabilities of its employees. Finning is committed to building safe, talented and inclusive teams and believes this will help the Company across all operations to achieve its strategic and operational goals at all levels.

Finning employs skilled mechanics, technicians, parts persons, apprentices and highly qualified professional individuals and encourages training and career development for all of its employees. To enhance skill levels and expertise, Finning offers the following:

- All of Finning's operations, in partnership with Caterpillar, support Caterpillar's Think BIG program, a twenty-month diploma program that provides classroom and job-site training for equipment technicians. Finning UK and Ireland was the first European dealer to deploy Caterpillar's Think BIG in-house apprentice development program. Caterpillar's Think BIG program implemented by Finning South America has been recognized by local authorities and local industries as a leader in best practices with regard to technician development.

- Formalized intern programs provide learning and development opportunities in the sales and operations areas of Finning Canada. South America has a training model that defines career progression opportunities in service, sales, parts and logistics among others. Finning UK and Ireland also has a range of programs in place both internally and externally to support the development of its sales force and technicians.
- In South America, Finning Technical Institute offers training programs to Finning employees, customer employees, and scholarship students to provide qualified technicians to meet the demand to support the mining sector in Chile. The Finning Technical Institute has been recognized by both industry and local government for its programs.
- Finning has a formal goal-setting and performance assessment program to assist in advancing its long-term strategy for employee development. Annually, salaried employees work with their managers to identify individual performance objectives that are linked to their department's goals and to Finning's overall objectives and priorities. At least once mid-year and at year-end, employees meet with their manager to review their performance and identify strengths and any areas for development in the following year.

Consistent with the goal of building and improving the skills of its entire workforce, Finning also works to enhance the capabilities of its leaders to make better data-driven decisions and develop their teams. Leadership training at Finning includes a newly launched global program called Power to Lead, and a selection of key targeted programs and development opportunities that further develop the desired competencies of its leaders. The goal of the program is to enable Finning's leaders, at all levels in the organization, to execute and translate the Finning strategy and better understand the GSPs.

At least annually, the Company reviews succession plans for key management positions and identifies high potential leaders. This enables the organization to determine the programs and accelerate the development plans required to prepare the identified high potential leaders to develop, advance and take on new roles. In 2018, work was undertaken in all regions to introduce a new and consistent methodology to identify and develop talent across all regions. This methodology, along with a global assessment practice for high potential employees below the executive level that was developed in 2017, provides detailed insights to allow for more robust and targeted development.

Finning conducts an annual Employee Experience Survey to monitor and improve employee engagement. In 2018, participation of Finning's employees in the survey was 89%, employee engagement was 85% and safety received the highest score of all categories at 89%. These are strong indicators of the commitment and dedication of Finning's employees overall and more importantly to safety. Other key indices showed strengths in the categories of inclusive culture, workload and flexibility and manager effectiveness, indicating that Finning's response and action planning to the annual experience survey results is demonstrating strong returns.

3.6 EMPLOYEE RELATIONS

Finning had 13,146 employees at the end of 2018 compared to 12,544 employees at the end of 2017. A breakdown of where these employees are located is as follows.

	Canada	South America	UK and Ireland	Total
2018	5,427	6,252	1,467	13,146
2017	4,885	6,207	1,452	12,544
Change	542	45	15	602

In 2018, Finning's headcount increased in all regions. The increase in headcount was necessary in order for Finning to meet current and anticipated customer demand for product support, for increased activity in Canada, and for implementation of the enterprise resource planning (ERP) system in South America. The headcount increase follows several years of headcount reductions due to global transformation activities undertaken to better align Finning's cost structure to business volumes and to achieve efficiencies and process improvements.

Approximately 60% of Finning's employees are represented by unions and covered by collective agreements. The principal agreements covering the majority of Finning's unionized employees are as follows:

Canada: At Finning Canada, hourly paid parts and service employees are represented by the International Association of Machinists and Aerospace Workers (IAM) and are covered by two collective bargaining agreements:

- Finning's collective bargaining agreement with IAM – Local Lodge 99, representing approximately 1,600 hourly employees in Alberta and Northwest Territories, which will expire on April 30, 2019.
- Finning's collective bargaining agreement with IAM – Local Lodge 692, representing approximately 780 employees in British Columbia and Yukon Territory, which will expire on April 14, 2020.

OEM Remanufacturing employees are represented by the Logistic, Manufacturing and Allied Trades Union – Local 56, which is affiliated with the Christian Labour Association of Canada (CLAC). The current three-year collective agreement between OEM and CLAC, representing approximately 610 employees, will expire on December 31, 2020.

South America: Approximately 78% of Finning's Chilean workforce are unionized, and are represented by seven unions, all of which have collective agreements in force. Three agreements expire on December 31, 2019; one expires on January 1, 2020; a fifth agreement will expire on September 30, 2020; and the last two agreements, which represent mostly the shovels and drills employees, expire on December 31, 2020, and January 31, 2021, respectively.

Regarding Finning subsidiary companies in South America, the collective agreement covering the union at Diperk will expire on December 31, 2021, and the collective agreement covering the union at The Rental Store Chile S.A. will expire on January 9, 2020.

In Bolivia, there is one union, representing approximately 39% of the workforce. The current collective agreement will expire on March 31, 2019.

U.K. and Ireland: Finning (UK) Ltd. recognizes the Unite trade union for collective bargaining purposes for its service and staff employees in the U.K. and the Unite trade union and Services Industrial Professional and Technical Union for employees in the Republic of Ireland. The pay

element of the collective agreements with these unions expires on March 31, 2019, and discussions regarding new agreements will commence shortly.

3.7 COMPETITIVE CONDITIONS

Finning is part of Caterpillar's global dealer network. As a dealer, Finning sells, rents and supports Caterpillar equipment in the territories where it represents Caterpillar.

Finning primarily competes with a large number of equipment distributors who sell and support equipment manufactured by companies other than Caterpillar. The competitive environment for Caterpillar's machinery and engine business consists of global, regional and specialized local enterprises. Finning believes its competitive advantage in its territories lies in superior product quality, exceptional service capability, remanufactured components, product customization, strong distribution capability and parts availability, an extensive branch network, an increasing range of digital services and proximity to customers.

Caterpillar offers a broad range of products, which constitutes another competitive advantage for Finning. Caterpillar's competitors generally provide a more limited range of products, and in many cases these are specific to particular market segments and applications within those segments. As a result, most of Finning's competitors specialize in more limited and specific lines of equipment and services.

Finning believes it offers superior product support capability which, when combined with data and insights from connected assets and Finning's domain expertise, gives Finning a distinct competitive advantage when customers are looking to achieve the lowest operating cost over the life of their equipment.

3.8 DEALERSHIP AND DISTRIBUTOR AGREEMENTS

Finning has dealership and distributor agreements with several equipment manufacturers and distributors, the most significant being Caterpillar. Finning also has several dealership agreements with companies owned by Caterpillar, such as Perkins, MaK and F.G. Wilson. Under the terms of its agreements with Caterpillar, Finning is responsible for marketing, distributing and servicing Caterpillar's products in its dealership territories. The principal agreements can be terminated on 90 days' notice in Canada and South America and six months' notice in the U.K. and Ireland. Other agreements with Caterpillar can be terminated on three to six months' notice. If Caterpillar terminates an agreement, Caterpillar must purchase substantially all Cat-related inventories of new equipment and new parts from Finning at cost. Finning started as a Caterpillar dealer in 1933 and believes it has developed a strong relationship with Caterpillar. Finning's management is not aware of any matter that could result in termination of any of the dealership agreements with Caterpillar.

Over 95% of Finning's business involves Caterpillar products. Finning's business is therefore dependent on market acceptance of Caterpillar products. From time to time, Caterpillar finds it necessary to allocate supply of particular products among its dealers. Such allocations of supply may increase lead times for product delivery, and decrease overall inventory levels in Finning regions, however the Company works closely with Caterpillar, to endeavour to mitigate these issues and moderate the impact to its customers.

In addition to the Caterpillar dealer relationships noted above, Finning has developed dealer relationships for other complementary product lines in order to create new marketing opportunities and to expand its product support.

3.9 BUSINESS CYCLES

Many of Finning's customers operate in industries that are cyclical in nature. As a result, customer demand for its products and services may be affected by economic conditions on a global or local level. A number of factors, including changes in interest rates, inflation, economic growth or retraction, levels of taxation, foreign exchange, commodity prices, trade wars, environmental regulation and approval processes, the level of government infrastructure spending and policy changes, may influence capital expenditure decisions, and ultimately, Finning's sales. Through diversification by geography, by markets and by the services offered, Finning endeavours to mitigate some of this cyclical impact.

3.10 FOREIGN OPERATIONS

In 2018, Finning generated approximately 53% of revenue from operations in Canada (2017: 49% (restated, see page 4)); 31% from South America (2017: 35% (restated, see page 4)); and 16% from operations in the U.K. and Ireland (2017: 16% (restated, see page 4)). Revenue from operations outside of Canada contributed approximately 47% of consolidated revenue in 2018, compared to 51% in 2017.

3.11 ETHICS

Finning's Code of Conduct (Code) forms the cornerstone of how Finning conducts business and how its employees' actions contribute to Finning's corporate goals. The Code sets out Finning's expectations for the ethical behaviour of its directors, officers, employees, agents, consultants, contractors and suppliers. The Code encompasses ambassadorship and accountability, privacy, ethical conduct, inclusion and diversity, confidentiality, environmentally responsible practices, health and safety, anti-bribery and anti-corruption, business integrity, financial accuracy and accountability including fair and full disclosure of Finning's financial results, and how to deal with breaches of the Code. The Code is further supported by Finning's Global Anti-Bribery and Anti-Corruption Policy, Whistleblower Policy and Code of Ethics for Senior Executive and Financial Management. The Code is reviewed annually by Finning's senior management and the Board. All directors, officers and employees are required to acknowledge their compliance with the Code on an annual basis.

The Board monitors compliance with the Code through the Audit Committee. All directors, officers and employees have a duty to report suspected Code violations. The Audit Committee receives quarterly reports of Code complaints and trends in complaints, and specific reports if any material violations are alleged. In order to address Code matters in a timely, unbiased and confidential manner, the Company has established a Global Ethics Committee comprised of the Compliance Officer (General Counsel & Corporate Secretary), Executive Vice President & Chief Financial Officer, Vice President, Risk Management, Chief Human Resources Officer and Senior Vice President, Corporate Controller, and Regional Ethics Committees in each of Finning's three regions comprised of senior level executives in finance, legal, human resources and internal audit. The Global and Regional Ethics Committees are management committees. The Global Ethics Committee delegates the investigation of potential Code violations, where appropriate, to the applicable Regional Ethics Committee, who reports the results of investigations and any recommended actions to the Global Ethics Committee for approval. The Global Ethics Committee investigates and takes appropriate actions regarding any reports of suspected Code violations that it determines not to delegate to a Regional Ethics Committee.

The Company's Whistleblower Policy enables any issue that may arise to be resolved, in the first instance, within the Company, rather than outside it, without fear of retaliation. Anyone who believes that a

violation of the Code has occurred or who requires advice regarding compliance with the Code is encouraged to report such suspected violation or concern through Finning's compliance website or telephone hotline. The compliance website and the telephone hotline are managed by an independent global reporting agency. In addition, the Compliance Officer can be contacted directly at complianceofficer@finning.com. Further information on the reporting of ethics violations or concerns is provided in Finning's Whistleblower Policy. The Whistleblower Policy, Code of Conduct, Global Anti-Bribery and Anti-Corruption Policy and Code of Ethics for Senior Executive and Financial Management are all available on Finning's corporate website at www.finning.com.

3.12 SUSTAINABILITY

In 2018, Finning continued making progress in its sustainability journey. The Company strengthened its sustainability programs through the development of a global sustainability policy, expressed support of the United Nations Sustainable Development Goals, identified its most relevant environment and social impacts, and conducted a gap analysis to form the base for development of a five-year road map to continue evolving its sustainability practices. Finning also issued an annual sustainability report, including sections on: People; Environment; Products; Communities and Ethics and Governance.

3.13 CLIMATE CHANGE RISK DISCLOSURE

Finning recognizes that climate change is a serious global challenge and is committed to monitoring, reporting and managing greenhouse gas (GHG) emissions of its operations.

Finning operates workshops and remanufacturing and other facilities and a fleet of vehicles, including cars, pick-up trucks, vans and large service trucks. At its facility locations, Finning repairs equipment and replaces parts and large components. Finning does not manufacture any new equipment. However, as a result of its operations, Finning generates direct GHG emissions (Scope 1) from fuel combustion in its fleet, natural gas use for heating facilities, and diesel use for engine and transmission diagnostics. It also generates indirect GHG emissions (Scope 2) from purchased electricity.

To address the climate change challenge, Finning focuses on its own emissions through monitoring, reporting and managing the GHG emissions intensity of its operations. Implementing practices that minimize Finning's impact on the environment is a high priority. Focus in this area is viewed as a shared responsibility between Finning and each and every Finning employee and is an important part of Finning's corporate culture.

Governance of all aspects related to GHG emissions and climate change is held by the Safety, Environment and Social Responsibility Committee, which reports to the Board, and the Finning Leadership Team, comprised of the Chief Executive Officer, Chief Financial Officer, Presidents of the three regions in which Finning operates, Chief Information Officer and Chief Human Resources Officer.

Finning's strategy on climate change includes the following elements: monitoring emissions; annual external reporting of Scope 1 and Scope 2 emissions data through the Carbon Disclosure Project; and the identification of opportunities for emissions reduction.

Climate-related risks are identified, assessed and managed through the Company's enterprise risk management (ERM) processes, which are updated and reviewed quarterly.

Climate-related risks have been classified in three categories: 1) risks associated with changes in regulations; 2) risks driven by changes in climate parameters; and 3) risks driven by increasing public awareness of climate change matters. Details of these three risk categories are as follows:

1) Risks associated with changes in regulations:

- Many of Finning's customers operating in the oil sands have disclosed risks related to uncertainty surrounding new climate-related regulations and risks related to carbon taxes. Since these risks are relevant to Finning's customers, as a supplier, these risks could inherently impact Finning's business through reduced demand for Finning's products and services.

2) Risks driven by changes in climate parameters:

- Changes in temperature extremes (such as extreme cold in winter and heat waves in summer and associated wildfire risk) in certain operating regions have a potential adverse impact on operations, (such as shut-down requirements), and working conditions and may have health implications for Finning employees. Additionally, extreme temperatures could require an investment in our facilities to ensure that employees are able to work in a safe environment. This risk may also give rise to more frequent use and maintenance of existing facility-related equipment (e.g. heating/cooling systems), resulting in increased operational costs.

3) Risks driven by increasing public awareness of climate change matters:

- Finning is an important part of the value chain associated with the oil and gas sector in Western Canada and other resource industries throughout South America and the U.K. and Ireland. As awareness of climate-related risks and impacts increases, there is growing concern about whether, or how, expansion of fossil fuel infrastructure is consistent with action on climate change. Since Finning is a major supplier of heavy duty equipment to these industries, there is potential for this to have an impact not only on our brand and reputation, but also our business prospects or share price.

The above risks may negatively impact Finning from a share price and business, financial and reputational perspective. They represent an opportunity for partnering with Caterpillar, other suppliers and customers to develop and operate equipment and technology that are increasingly more effective and efficient in reducing GHG emissions.

4. Key Business Risks

4.1 RISK MANAGEMENT

The Company and its subsidiaries, affiliates and joint ventures are exposed to market, credit, liquidity, and other risks in the normal course of their business activities. The Company's ERM process is designed to ensure that such risks are identified, managed, and reported. This ERM framework assists the Company in managing business activities and risks across the organization in order to achieve the Company's strategic objectives.

The Company is dedicated to a strong risk management culture to protect and enhance shareholder value. On a quarterly basis, the Audit Committee reviews the Company's process with respect to risk assessment and management of key risks, including the Company's major financial exposures and the steps taken to monitor and control such exposures. The Audit Committee also reviews the adequacy of disclosure of key risks in the Company's AIF and MD&A. Changes to the key risks are reviewed quarterly by the

Audit Committee and on a yearly basis by the Board, and any changes to key financial or business risks are disclosed in the Company's quarterly MD&A.

For disclosure on the Company's key financial risks, including risks relating to Controls and Procedures Certification; Financial Risks and Uncertainties; Accounting, Valuation and Reporting and Income Taxes, refer to the Company's MD&A and the annual consolidated financial statements for the fiscal years ended December 31, 2018 and December 31, 2017. Key business risks are disclosed in this AIF.

4.2 KEY BUSINESS RISKS

4.2.1 Relationship with Caterpillar

The majority of Finning's business involves the distribution and servicing of Caterpillar products. Finning's business is therefore highly dependent on continued market acceptance of Caterpillar's products. Finning believes that Caterpillar has a solid reputation as a manufacturer, with excellent brand recognition and customer support, and has high market share in many of the markets it serves. However, there can be no assurance that Caterpillar will be able to maintain its reputation and market position in the future. If Caterpillar is unsuccessful in developing and enhancing its product lines to meet evolving and sophisticated customer needs, is unable to maintain the quality of its products, or is unable to provide its products at competitive prices, market acceptance for Caterpillar products may deteriorate over time. Any resulting decrease in the demand for Caterpillar products could have a material adverse impact on Finning's business, results of operations and future prospects.

Finning is also dependent on Caterpillar for the timely supply of parts and equipment to fulfill its deliveries to customers and meet the requirements of Finning's service maintenance contracts. In instances where Caterpillar reduces its production capacity or during periods of intense demand, Caterpillar may find it necessary to allocate its supply of particular products among its dealers. Such allocations of supply have not, in the past, proven to be a significant impediment to Finning in conducting its business. However, there can be no assurance that Caterpillar will continue to supply its products in the quantities and timeframes required by Finning's customers. When supply constraints have occurred in the past, Finning has been successful in utilizing its rental assets and used equipment to meet demand, but there can be no assurance of continued success in this area.

Finning's product supply could also be disrupted by labour disputes or strike action at Caterpillar. Caterpillar may also choose to discontinue a product line that is profitable for Finning. Prolonged delays or discontinued product supply may adversely affect Finning's business, results of operations and financial condition. Historically, this has not been an issue for Finning.

Finning has also been reliant on Caterpillar to supply financing to its customers. In periods of global credit market disruption, Caterpillar may tighten sources or terms of financing for Finning's customers. When credit constraints have occurred, Finning and its customers have historically been successful in finding alternative sources of financing or arranging alternate terms of purchase to facilitate delivery of products to customers. However, any prolonged disruption in Caterpillar's or Finning's customers' access to liquidity markets could have a material adverse impact on Finning's business, results of operations and financial condition.

Finning has a long-standing relationship with Caterpillar that dates back to 1933, when it was awarded its first dealer territory in Canada. Since 1933, and as part of its strategic plan, Finning has

continued to develop its relationship with Caterpillar, expanding its dealer territories in Canada, the U.K., Ireland and South America.

Finning enjoys an excellent relationship with Caterpillar, which management is confident will continue to be very strong into the future. However, as is customary in dealership arrangements of this type, the sales and service agreements with Caterpillar are terminable by either party upon 90 days' notice in most regions, and upon six months' notice in the U.K. and Ireland. If Caterpillar terminates an agreement, it must repurchase substantially all inventories of new equipment and parts from Finning at cost. Caterpillar may also, from time to time, change various elements of the dealership operating model or its dealer operating practices. Termination of any such agreement or a change to the business model or its dealer operating practices could have a material adverse impact on Finning's business, operational results, and future prospects.

4.2.2 Economic Conditions / Business Cyclicity

Many of Finning's customers operate in industries that are cyclical in nature. As a result, customer demand for Finning's products and services may be affected by economic conditions on both a global and local level. Changes in interest rates, inflation, economic growth, levels of taxation, legal and regulatory matters, foreign exchange, commodity prices, customer access to resources, the level of government or other infrastructure spending and international trade agreements may influence capital expenditure decisions, and, ultimately, Finning's sales. Finning has mitigated some of its exposure to variable business cycles by diversifying its business across a broad range of business activities, industry sectors and geographic locations. A significant amount of Finning's gross margin is generated from parts and service activities, which are less sensitive to swings in commodity prices than equipment sales. In spite of Finning's geographic and business diversification, an economic downturn in one or more markets or regions may adversely impact Finning's operating results, particularly at a regional level. In addition, a sustained downturn in performance may impact the Company's share price. Finning mitigates the economic risks associated with lower business volumes at a regional level through cost reduction initiatives and through constant evaluation of efficiency and process improvements.

4.2.3 Information Systems and Technology

Information systems and technology enable two main categories of solutions – those that facilitate internally consumed services and improve business performance, and those that facilitate customer facing activities and drive revenue.

The integrity, reliability and availability of technology and the data processed by that technology is an integral part of Finning's business processes, including marketing of equipment and support services, inventory and logistics optimization, business intelligence and finance. Some of these systems are integrated with Caterpillar's core processes and systems.

Finning continues to invest to improve business performance through its internal transactional systems, and will upgrade or install various business process enablement and decision support systems on a continuous basis in the coming years. These system implementations often drive business process changes as well as technology changes.

Finning determined that given the age and sustainability of the South American business' current information systems, a major regional systems overhaul was required. The South American business has replaced its existing multiple mainframe systems with a modern ERP system across all end to end business

processes. The ERP implementation went live in stages during 2018 with the final major go-live in November 2018. As is normal in all ERP implementations, the new processes and system will require some months of post go-live operation before normal transactional velocity is obtained in the business. A programmatic approach to accelerating that timeline of reaching normal velocity is being implemented. Any delay or failure of the post implementation performance program to reach normal business processes velocity could adversely affect Finning's business and operating results.

Business process, systems change and organizational change often carry the risk of business disruption, failure to achieve expected business benefits, cost overruns and ineffective design and operation of systems of internal control over financial reporting and disclosure controls and procedures. Benefits assessment, change management, risk and impact assessments, solution validation, strong project governance, communication and training have been identified as critical success factors in the successful implementation of new systems. Any disruptions to these systems or the failure of these systems to operate as expected could, depending on the magnitude of the problem, adversely impact Finning's operating results by limiting the ability to effectively monitor and control Finning's operations.

In addition, new digital and other technologies and advancements to equipment in the market can become disruptive to Finning's operations, market share and business model. Finning scans continuously for emerging digital and other technologies and equipment advancements and their potential impacts. In 2016, Finning launched its digital and technology solutions business, to investigate emerging digital technologies and determine how they can impact customers and Finning's core business opportunities, focus on improving the customer experience, and pursue new opportunities for revenue generation in the digitally enabled value-added services area. While execution performance to date has been strong, the failure of Finning to meet these objectives could have an adverse impact on the business.

A rigorous management process is being followed to manage these risks and a great deal of the business processes and systems transformation program focus is on developing capabilities to reduce and mitigate these risks, however, there is no certainty that these risks can be sufficiently reduced or mitigated.

4.2.4 Cybersecurity

Cybersecurity incidents related to our information technology systems are a threat to the integrity, reliability, and availability of technology and data. Cybersecurity incidents may take the form of malware, computer viruses, cyber threats, cyber extortion, employee error, malfeasance, system errors and other types of security and data breaches, and may arise from inside and outside of our organization. Finning relies heavily on information technology systems, some of which are managed by third parties, to process, transmit and store electronic information, including personally identifiable information, credit card payment data and other sensitive customer and employee information, and to manage or support a variety of critical business processes and activities. Many of Finning's information technology systems, applications and supporting network infrastructure are in the process of being, or have recently been, upgraded. If Finning is unable or delayed in effectively upgrading and continually maintaining its systems, applications and network infrastructure, its risk of a cybersecurity incident may increase. As monitoring capabilities are not always fully effective, Finning may also fail to identify cybersecurity breaches or be unable to discover them in a timely way, which could affect its ability to implement adequate preventative or remediation measures. Finning's risk of experiencing a cybersecurity incident has increased as the number, intensity, and sophistication of attempted attacks and intrusions have increased globally.

Although Finning makes significant efforts to maintain the security and integrity of its information technology systems, there can be no assurance that those efforts and measures will be able to prevent all cybersecurity incidents. A cybersecurity incident could have various negative implications for Finning, including the following:

- a disruption of Finning's business operations and lost revenues;
- unauthorized access to, destruction, loss, theft, misappropriation or release of, proprietary, confidential, sensitive or otherwise valuable information of Finning or its customers, suppliers or employees, which could be used for disruptive or otherwise harmful purposes;
- damage to Finning's reputation with its customers, partners (e.g. Caterpillar), suppliers, investors and the general public;
- a disruption to the proper functioning of Finning's information technology systems;
- an expenditure of significant resources in remediation costs;
- investigations by regulatory agencies or litigation, claims and liability for breach of contract, damages or other penalties;
- inability to process customer transactions or service customers; and/or
- disruptions to inventory management.

Finning continuously implements security controls, policy enforcement mechanisms, management oversight and monitoring systems in order to prevent, detect and address potential threats. Finning has a global Chief Information Security Officer (CISO) focused on developing and improving Finning's information security program. The CISO leads a skilled and diverse team located throughout Finning's operating regions. Finning also has an in-house Cyber Security Operations Center (CSOC) that monitors for cyber security incidents to proactively defend against cybersecurity incidents. The CSOC is augmented by a service provider for advanced threat intelligence and a retainer is in place should a cyber security incident occur. Our security team is involved in the procurement process and reviews all software, hardware and cloud-based contracts to be entered into by Finning to ensure privacy and cybersecurity elements are addressed. Finning requires that its cloud-service providers obtain a Service Organization Control type 2 report annually for Finning's review. Additionally, as of December 2018, Finning has implemented cyber insurance coverage as part of a stand-alone cyber insurance policy, however, there is no assurance that this coverage will apply or fully cover damages incurred in the event of a cyber incident. The occurrence of a significant loss or claim, or a greater number of these losses than anticipated, could have a material adverse impact on Finning. Our risk and exposure to these matters cannot be fully mitigated because of, among other things, the evolving nature of these threats. As a result, cybersecurity and the continued development and enhancement of controls, processes and practices designed to protect systems, computers, software, data and networks from attack, damage or unauthorized access remain a priority.

4.2.5 Competition

The Company competes with a large number of equipment vendors worldwide that sell equipment manufactured by companies other than Caterpillar. Although price competition between Finning and other equipment vendors can be intense, there are a number of factors that have enhanced Finning's ability to compete throughout its market areas, including: the range and quality of Caterpillar products; the range and quality of Finning's services and solutions; Finning's ability to meet sophisticated customer requirements; Finning's effective and efficient distribution capabilities; the number of sales and service locations; and Finning's proximity to its customers.

Finning may encounter increased competition in the future through new entrants into the market and the expansion of e-commerce channels for parts and equipment sales, which may put pressure on prices. Finning may also encounter competition through the introduction of digitally enabled or digitally enhanced value-added services from third parties, including potential new non-traditional entrants into the market. In addition, pressure on prices may occur as a result of increased volumes of data in the market place, increasing price transparency and the customer's pursuit of value added services, which would put commoditization pressure on core physical parts and equipment and service sales.

Further, foreign currency movements could provide relative pricing advantages to competitors who transact their business in different currencies than Finning.

Increased competitive pressures for these or other reasons, or the inability of Finning to maintain the factors which have enhanced its competitive position to date or develop effective responses to new competitive pressures, could adversely affect Finning's business, results of operations, and financial condition.

4.2.6 Growth Initiatives / Integration of Acquisitions / Project Execution

As part of its long-term corporate strategy, Finning intends to grow its business through a combination of organic growth and strategic acquisitions, as well as by focusing on its core business. Finning's ability to successfully grow its business will be dependent on a number of factors including: identification of value creating business or acquisition opportunities; negotiation of purchase or investment agreements on satisfactory terms and at satisfactory prices; prior approval of certain acquisitions by Caterpillar or other parties, including approval of regulatory authorities; the ability to secure attractive financing arrangements; and the ability to successfully integrate newly acquired operations into the existing business. There can be no assurance that Finning will be able to negotiate satisfactory purchase or investment terms and prices, obtain necessary approvals or secure financing on attractive terms or at all. Although Finning makes every effort to successfully integrate new operations, there can be no assurance that Finning will fully realize the anticipated revenues, synergies, or other intended benefits associated with potential acquisitions.

Further, any significant expansion of the business may increase the operating complexity of Finning and divert management attention away from regular business activities. Any failure of Finning to manage its growth strategy successfully could have a material adverse impact on Finning's business, results of operations, and financial condition.

Finning has many operational excellence initiatives underway, in order to improve customer loyalty, supply chain asset utilization and service excellence for all of its operations. These initiatives include placing a greater focus on meeting customer expectations and on continuously sustaining or improving employee engagement. Failure to effectively execute on the operational excellence agenda may result in the inability to obtain desired business results.

Finning has adopted and implemented a project management process and is expanding its capabilities in this area in order to manage risks associated with the complexity of the initiatives and projects underway.

4.2.7 Key Personnel

The success of Finning in achieving its goals is largely dependent on the abilities and experience of its senior management team and other key personnel. Finning's future performance will also depend on its

ability to attract, develop, motivate and retain highly qualified employees in all areas of its business and to successfully integrate employees transitioning to Finning from acquisitions. Competition for highly skilled management, sales and technical personnel is intense, particularly in certain geographic areas where Finning operates. To help mitigate this risk, Finning has implemented a number of human resource initiatives, including: training and career development programs, succession plans, engagement surveys, performance management systems, compensation programs and recruiting strategies.

Although Finning actively manages its human resource risks, there can be no assurance Finning will be successful in its efforts. The loss of certain key employees, or failure to attract, retain and motivate talent as needed, may have an adverse impact on Finning's business, results of operations and future prospects.

4.2.8 Long-term Product Support Contracts and Complex Power and Energy Systems

Finning enters into long-term product support contracts with some of its customers. Under these contracts, Finning agrees to maintain certain fleets of customer equipment at negotiated performance levels. The lengths of these contracts vary, often ranging up to five or more years. The contracts are generally either at a fixed price over the term or can vary depending on equipment utilization. Many contracts have additional provisions for inflationary or currency adjustments.

Finning also enters into complex power and energy systems contracts with some of its customers, which are engineered solutions involving the design, installation and assembly of power and energy systems. The length of these contracts varies, but typically they have a term of under two years. The contracts are generally at a fixed price over the term, and contain penalty clauses payable by Finning if contractual milestones are not met.

Finning has developed processes and has controls in place to ensure contracts are bid appropriately, but due to the nature and complexity of these contracts, there is a risk that significant cost overruns may be incurred. If Finning has miscalculated the extent of work required, or if actual parts and service costs increase beyond the agreed adjustments, contract profitability may be adversely affected. All long-term product support contracts and complex power and energy systems contracts are validated against historic Finning and Caterpillar data, such as on conservative component change out periods and usually include an escalation clause to cover inflationary increases where appropriate. The Company closely monitors these contracts for early warning signs of cost overruns, however, there can be no assurance that cost overruns will be avoided.

Preventative measures such as condition monitoring and scheduled fluid sampling help to identify problems in equipment subject to long-term maintenance contracts early on and help reduce the risk of costly repair work. There is no assurance that such measures will always address such risks.

Caterpillar may, in certain circumstances, share in cost overruns if profitability falls below a certain threshold. Any failure by Finning to effectively price and manage these contracts could have a material adverse impact on Finning's business, results of operations and financial condition.

4.2.9 International Operations

Finning has operations outside of Canada, including in the U.K., Republic of Ireland, Chile, Argentina and Bolivia. Finning's international subsidiaries are subject to risks normally associated with the conduct of business in foreign jurisdictions, including: uncertain political and economic environments; war,

insurrection, and other civil disturbances; changes in laws, regulations, and taxation; foreign currency exchange controls; import and export controls; and limitations on the repatriation of earnings. These risks may limit or disrupt operations, increase costs, restrict the movement of funds, or result in the loss of property. Although Finning closely monitors its foreign investment risks, there can be no assurance that Finning will not be adversely affected by political, economic and other events beyond its control.

In June 2016, the U.K. voted to exit the European Union, which has created general economic uncertainty and disruption within government that the Company expects will continue beyond the official Brexit date (March 29, 2019). The Company has worked extensively with Caterpillar to develop a risk mitigation strategy to minimize the impact of any Brexit scenario that occurs, and continues to monitor all activities related to Brexit. The end result may take a number of years to resolve and the resulting uncertainty may have an adverse effect on Finning's business.

Finning's South American operations began to export an agricultural animal feed product from Argentina in the third quarter of 2012 in response to the Argentine government's efforts to balance imports and exports and to manage access to foreign currency exchange. These exports enabled Finning to import goods into Argentina to satisfy customer demand, while meeting the government's requirements. Finning's South American operations have not exported agricultural animal feed product since the third quarter of 2013. The Argentina Customs Authority has made a number of claims associated with the export of this agricultural product. Finning is defending these claims, believes they are without merit, and is confident in its position. These pending matters may take a number of years to resolve and should the ultimate resolution of these matters differ from management's assessment, a material adjustment could arise and impact Finning's financial position.

4.2.10 Labour Relations

Many of Finning's employees are represented by unions and Finning is party to a number of collective bargaining agreements worldwide, which are subject to expiration at various dates in the future or have already expired.

While Finning is committed to the collective bargaining process and to concluding a fair contract for its employees and for Finning, the renegotiation process could result in future work stoppages or higher wages and benefits paid to union members. The failure to renew collective agreements upon satisfactory terms and in a timely way could have a material adverse impact on Finning's business, results of operations, and financial condition.

4.2.11 Business Continuity Risks

The occurrence of one or more natural disasters, such as earthquakes, wildfires and hurricanes, unusually adverse weather, pandemic outbreaks, boycotts and geo-political events, such as civil unrest in countries in which Finning operates, acts of terrorism, or similar disruptions, could materially adversely affect Finning's business, people, customers and financial results. Finning continues to enhance its business continuity program to address and mitigate, to the extent possible, the impact of these risks, however, a risk of this nature may still have a material adverse impact on Finning's business, results of operations and financial condition.

4.2.12 Government Regulation

Finning's business and its customers are subject to evolving law, regulation and intervention by governments at the federal, provincial, state and municipal levels in the countries where they conduct

operations. As these governments continually balance competing demands from different interest groups and stakeholders, the Company recognizes that the magnitude of regulatory risks has the potential to change over time. Although Finning cannot predict the future development of such laws and regulations, or their impact on future earnings and operations, changes in government policy, legislation or regulation could impact the Company's existing and planned projects as well as impose costs of compliance and increase capital expenditures and operating expenses. In addition, changes to laws and regulations may impact our customers in ways that affect their demand for our products. Amendments to, or more stringent implementation of, current laws and regulations governing Finning's operations or the operations of Finning's customers could have a material adverse effect on Finning's business, operating results or financial position. In addition, noncompliance with laws and regulations could significantly damage, and require Finning to spend substantial amounts of money to rebuild, its reputation and negatively impact its business.

Examples of regulatory risks that could affect Finning include, but are not limited to, uncertain or negative interactions with governments, uncertain agricultural or mining policies, uncertain climate change related policies, uncertain environmental, health and safety policies, expropriation or cancellation of contract rights, currency exchange controls, limitations on repatriation of earnings, loss of licences to operate, penalties, taxes, royalties, government fees, restrictions on production, price controls, export controls, import restrictions or other restrictions or changes applicable to, among other things, equipment, services and supplies, currency remittance, foreign investment, financial reporting and disclosure obligations, corporate governance, antitrust, customs and trade, employees, contractors, transportation, pensions, benefit plans, and the manufacture and sale of consumer products. In addition, more stringent regulations on climate change could lead customers to look for equipment and technology that contribute to reduce GHG emissions, which could be an opportunity for Finning. Finning is currently subject to GHG regulations on climate change in some of the areas in which it operates and could be impacted by more stringent laws and regulations yet to be adopted. Changes to such laws and regulations may impose additional costs on Finning and may affect its business in other ways, including through a requirement to comply with various operating procedures and guidelines that may impact Finning's operations or may affect our customers and the demand for our products.

Finning has in place, in each of its business units, programs for monitoring and compliance to ensure that it meets or exceeds applicable laws and regulatory requirements. In addition, the Board has established and maintains the Safety, Environment & Social Responsibility Committee and the Audit Committee to oversee, monitor, and report to the Board on compliance matters. More information about the mandates of these committees may be found in Finning's most recent Management Proxy Circular, which can be found on its website www.finning.com or under its profile on SEDAR at www.sedar.com. No assurance can be given that these steps will be successful in completely mitigating these risks and ensuring Finning meets all applicable laws and regulatory requirements.

4.2.13 Defined Benefit Pension Plans

Although Finning's current pension arrangements in Canada and in the U.K. and Ireland are defined contribution plans, Finning still has a number of closed defined benefit (DB) pension plans covering certain legacy employee groups in the U.K. and Canada. Finning's South American employees do not participate in a company pension plan.

Finning is responsible for funding its DB pension plans to ensure plan assets will meet accrued benefit obligations in the future. Finning's funding requirements are dependent upon many factors, including the rate of return earned on plan assets, the discount rate used to calculate accrued benefit obligations, and other actuarial assumptions and experiences. Changes in any of these factors may cause the pension contributions and related pension expense to fluctuate. These risks are managed by selecting investments that aim to better match assets and liabilities of the DB plans. Both the Canadian and U.K. DB plans invest in various asset categories, primarily including equities, fixed income and real estate. These investments, in aggregate, are expected to provide sufficient returns in the long-term but may experience some volatility in the shorter-term. In selecting the portfolios and the weightings in each category, Finning considers and monitors how the duration and the expected yield of the investments match the expected cash outflows arising from the DB pension obligations. In addition, in Canada, a significant proportion of the liabilities were backed by investments in annuity contracts between 2014 and 2018. These contracts and the associated liabilities were transferred out of the DB plans effective January 1, 2019. A framework has been developed and adopted for each of the Canadian and U.K. DB pension plans whereby the investments will be adjusted over time as plan funding positions improve. The planned adjustments are intended to improve the asset-liability match over time. This is to be accomplished primarily by reducing the exposure to equity investments over time and increasing exposure to investments such as long-term fixed interest securities with maturities that better match the benefit payments as they fall due. Management believes that Finning has the financial capacity to fully fund its accrued obligations as necessary under its DB pension plans, but no assurance can be given that this will be the case. The Board, through its Audit Committee, oversees Finning's pension plans. This oversight includes the responsibility to analyze policies and strategies developed by management; however, no assurance can be given that this oversight function will result in Finning being able to fully fund its accrued obligations as necessary under these DB pension plans. For further disclosure on Finning's key risks related to its DB pension plans, refer to Finning's most recent annual consolidated financial statements available under the Company's profile on SEDAR at www.sedar.com.

4.2.14 Scope of Insurance Coverage

The Company maintains a program of insurance coverage that is ordinarily maintained by similar businesses, including property insurance and general liability insurance. Although the limits and deductibles of such insurance have been established through risk analysis and the recommendation of professional advisors, there can be no assurance that such insurance will remain available to Finning at commercially reasonable rates or that the amount of such coverage will be adequate to cover all liability or loss incurred by Finning. If Finning suffers claims or losses in excess of the limits of its insurance coverage or outside the scope of that coverage, its business, results of operations and financial condition could be adversely affected.

4.2.15 Repurchase Commitments

Finning enters into contracts that, in certain circumstances, include a right by the customer to require Finning to repurchase equipment sold to the customer for an amount that is generally based on a discount from the estimated future fair value of that equipment (right of return). The right of return is dependent upon a number of factors, including the condition of the equipment. The likelihood of the repurchase commitments being exercised, and quantification of the possible loss, if any, on resale of the equipment is assessed at the inception of the contract and at each reporting period thereafter. Significant assumptions are made in estimating residual values. These are assessed based on past experience and take

into account expected future market conditions and projected disposal values. Finning's experience to date has been that the equipment at the exercise date of the contract is generally worth more than the repurchase amount. Although Finning believes it has been successful in estimating equipment values to date, there can be no assurance that Finning will not incur a loss on such arrangements in the future. To mitigate this risk, all guarantees are reviewed on a quarterly basis and where deemed necessary, a provision is made at that time to record a potential loss.

4.2.16 Future Warranty Claims

Finning provides standard and extended warranties for most of the equipment, parts and services supplied to customers. In many cases, the warranty claim risk is shared jointly with the equipment manufacturer. Accordingly, Finning's liability is generally limited to the service component of the warranty claim, while the manufacturer is responsible for providing the required parts. There is a risk that product quality erosion or lack of skilled workforce could increase warranty claims in the future, or that future warranty claims may be greater than management anticipates. If Finning's liability in respect of such claims is greater than anticipated, it may have a material adverse impact on Finning's business, results of operations and financial condition. To mitigate this risk, Finning reviews every warranty offering by product at least annually to assess the experience with the product and endeavour to adequately manage the costs to service the product over its warranty period. Insurance may at times be obtained on equipment to further mitigate any warranty exposure. Additionally, Finning works closely with Caterpillar on all product quality issues and has extensive product improvement, product support and pre-delivery inspection programs in place.

5. SUMMARY OF FINANCIAL INFORMATION

5.1 THREE YEAR SUMMARY

Years Ended December 31 (\$ millions except per share amounts)			
	2018	2017 (restated, see page 4)	2016
Revenue			
Canada	\$ 3,674	\$ 3,072	\$ 2,821
South America	\$ 2,170	\$ 2,157	\$ 1,857
UK and Ireland	\$ 1,152	\$ 1,027	\$ 950
Total	\$ 6,996	\$ 6,256	\$ 5,628
Earnings before finance costs and income taxes ⁽¹⁾			
Canada	\$ 297	\$ 225	\$ 87
South America	\$ 142	\$ 184	\$ 137
UK and Ireland	\$ 51	\$ 37	\$ (12)
Other	\$ (67)	\$ (54)	\$ (47)
Total	\$ 423	\$ 392	\$ 165
Net income ⁽¹⁾	\$ 232	\$ 216	\$ 65
Basic earnings per share (EPS) ⁽¹⁾	\$ 1.38	\$ 1.28	\$ 0.38
Diluted EPS ⁽¹⁾	\$ 1.38	\$ 1.28	\$ 0.38
Dividends paid per common share	\$ 0.79	\$ 0.745	\$ 0.73
Long-term debt ⁽²⁾ (includes current portion)	\$ 1,354	\$ 1,296	\$ 1,487
Total assets	\$ 5,696	\$ 5,069	\$ 4,910

(1) EBIT and EPS in 2018, 2017, and 2016 were impacted by the following items:

(\$ millions except per share amounts)	2018	2017	2016
Write-off and loss related to Energyst	\$ 30	—	—
Impact from Alberta wildfires			
insurance proceeds	\$ (7)	\$ (4)	—
unavoidable costs	—	—	\$ 11
Severance costs	—	\$ 5	\$ 41
Facility closures and restructuring costs	—	—	\$ 36
Power system project provisions, estimated loss on disputes and alleged fraudulent activity by a customer	—	—	\$ 20
Gain on investment	—	—	\$ (5)
Disposal of business	—	—	\$ 5
Impact of significant items ⁽³⁾ on EBIT:	\$ 23	\$ 1	\$ 108
Impact of above significant items on EPS:	\$ 0.15	\$ 0.01	\$ 0.50
Items impacting net income only (below EBIT) - impact on EPS:			
Tax impact of devaluation of ARS (\$20 million)	\$ 0.12	—	—
Redemption costs on early repayment of long-term debt (\$7 million after tax)	—	\$ 0.04	—
Impact of significant items on EPS:	\$ 0.27	\$ 0.05	\$ 0.50

2018 significant items:

- Following the Company's review of its investment in Energyst, it was determined that Energyst was no longer a strategic fit and that it was held-for-sale at September 30, 2018. As a result, the Company wrote off its investment and released cumulative foreign translation losses to the income statement upon Energyst's sale of its wholly-owned subsidiary in Argentina in 2018
- Insurance proceeds of \$7 million received in 2018 related to the final settlement of the Company's business interruption claim resulting from the Alberta wildfires in 2016.
- The Argentina peso (ARS) experienced a rapid devaluation in 2018, losing approximately 45% of its value in the third quarter of 2018 (annual devaluation of approximately 100%) and reaching a new historic low of \$1 U.S. dollar to 41.25 ARS in September 2018. This devaluation resulted in higher tax expense in 2018 than the same prior year period, primarily relating to the revaluation of deferred tax balances.

2017 significant items:

- Severance costs of \$5 million incurred in the Company's Canadian and South American operations related to facility and cost optimization.
- Insurance proceeds of \$4 million received related to the business interruption impact of the 2016 Alberta wildfires.
- Redemption cost related to the early repayment of the \$350 million 6.02% MTN due June 1, 2018.

2016 significant items:

- Restructuring costs of \$36 million incurred in the Canadian and UK operations related to facility closures and consolidations.
- Severance costs of \$41 million related to the global workforce reduction as the Company continued to align its cost structure to lower market activity.
- Unavoidable costs of \$11 million incurred during the evacuation and cessation of operations in the Fort McMurray, Alberta area due to wildfires for a six-week period in May and June 2016.
- The Company's South American operations recorded an estimated loss of \$10 million for which the Company filed a criminal suit claiming fraudulent activities by a customer in connection with non-payment for equipment financed through Caterpillar and guaranteed by the Company. The Company believes that the customer took advantage of import and currency restrictions to take possession of equipment without paying for it, as a result of which the Company was required to pay under its guarantee. The customer subsequently filed for insolvency protection. In addition to bringing a criminal action, the Company has also filed a claim in the customer's insolvency proceedings.
- As part of the restructuring and repositioning of the Company's UK power systems business, management in the UK & Ireland completed a detailed review of power systems contracts and projects. As a result, management recorded provisions on certain power systems contracts in Q1 2016, as well as estimated losses on disputes regarding two power system projects in Q2 2016, totaling \$10 million in the aggregate.

- Following a strategic review of Finning's operations in the U.K. & Ireland, it was determined that engineering and construction services for the water utility industry no longer represented a core sector for Finning's power systems division. The Company recorded a \$5 million write-down of net assets and other costs in the Q2 2016 related to the sale of this business in August 2016.
- Mark-to-market gain of \$5 million on the Company's investment in IronPlanet Holdings Inc.

⁽²⁾ In 2017, the Company issued \$200 million of 2.84% senior unsecured notes due September 29, 2021 (Notes). Proceeds from the issuance of the Notes were used to redeem, prior to maturity, all of the outstanding \$350 million, 6.02% MTNs due June 1, 2018. In December 2018, the Company amended its \$1 billion credit facility, which was set to fully mature in October 2022, by, among other things, extending the maturity date to December 2023 and increasing the credit facility commitment to \$1.3 billion.

5.2 THREE YEAR SUMMARY BY QUARTER

(Unaudited)

(\$ millions except per share amounts)

Results from Continuing Operations:

<u>Period</u>	<u>Qtr.</u>	<u>Revenue</u>	<u>Net Income</u> ⁽¹⁾	<u>Basic EPS</u> ⁽¹⁾	<u>Diluted EPS</u> ⁽¹⁾
2018	1	\$ 1,670	\$ 71	\$ 0.42	\$ 0.42
	2	\$ 1,729	\$ 81	\$ 0.48	\$ 0.48
	3	\$ 1,755	\$ 25	\$ 0.15	\$ 0.15
	4	\$ 1,842	\$ 55	\$ 0.33	\$ 0.33
	Total	\$ 6,996	\$ 232	\$ 1.38	\$ 1.38
2017 (restated, see page 4)	1	\$ 1,401	\$ 47	\$ 0.28	\$ 0.28
	2	\$ 1,584	\$ 55	\$ 0.33	\$ 0.33
	3	\$ 1,538	\$ 50	\$ 0.29	\$ 0.29
	4	\$ 1,733	\$ 64	\$ 0.38	\$ 0.38
	Total	\$ 6,256	\$ 216	\$ 1.28	\$ 1.28
2016	1	\$ 1,494	\$ 15	\$ 0.09	\$ 0.09
	2	\$ 1,310	\$ 5	\$ 0.03	\$ 0.03
	3	\$ 1,333	\$ 36	\$ 0.22	\$ 0.22
	4	\$ 1,491	\$ 9	\$ 0.05	\$ 0.05
	Total	\$ 5,628	\$ 65	\$ 0.38	\$ 0.38

(1) 2018, 2017, and 2016 EBIT and EPS were impacted by the following significant items:

(\$ millions except per share amounts)	2018		2017		2016		
	Q3	Q1	Q4	Q3	Q4	Q2	Q1
Write-off and loss related to Energyst	\$ 30	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Impact from Alberta wildfires							
insurance proceeds	—	\$ (7)	\$ (4)	—	—	—	—
unavoidable costs	—	—	—	—	—	\$ 11	—
Facility closures and restructuring costs	—	—	—	—	\$ 32	\$ 4	—
Severance costs	—	—	\$ 5	—	\$ 15	\$ 9	\$ 17.00
Power systems provisions, estimated loss on disputes, and alleged fraudulent activity by a customer	—	—	—	—	\$ 10	\$ 5	\$ 5.00
Gain on investment	—	—	—	—	\$ (5)	—	—
Disposal of businesses	—	—	—	—	—	\$ 5	—
Impact of significant items on EBIT	\$ 30	\$ (7)	\$ 1	\$ —	\$ 52	\$ 34	\$ 22.00
Impact of significant items on EPS:	\$ 0.18	\$ (0.03)	\$ 0.01	\$ —	\$ 0.23	\$ 0.17	\$ 0.10
Items impacting net income only (below EBIT) – impact on EPS							
Redemption costs on early repayment of long-term debt	\$ —	\$ —	\$ —	\$ 0.04	\$ —	\$ —	\$ —
Tax impact of devaluation of ARS	\$ 0.12	—	—	—	—	—	—
Impact of significant items on EPS:	\$ 0.30	\$ (0.03)	\$ 0.01	\$ 0.04	\$ 0.23	\$ 0.17	\$ 0.10

Basic EPS is calculated by dividing net income available to common shareholders by the weighted average number of common shares outstanding during the period. Diluted EPS is determined by dividing net income available to common shareholders by the weighted average number of common shares outstanding, adjusted for the effects of all potentially dilutive common shares, which comprise share options granted to employees. EPS for each quarter has been computed based on the weighted average number of shares issued and outstanding during the respective quarter; therefore, quarterly amounts may not add to the annual or year-to-date total.

6. MANAGEMENT'S DISCUSSION AND ANALYSIS

For further financial information, please refer to the MD&A relating to the Company's audited annual consolidated financial statements for the fiscal years ended December 31, 2018 and December 31, 2017 and the report of the auditors on such financial statements. The MD&A and audited annual consolidated financial statements are available under the Company's profile on SEDAR at www.sedar.com and can also be found on Finning's website at www.finning.com.

7. DIVIDENDS

The Company has a practice of paying quarterly dividends on its outstanding common shares. The declaration and payment of future dividends is subject to the discretion of the Board and will be dependent on the Company's results of operations, financial condition, cash requirements, future outlook and other factors deemed relevant by the Board. Dividends paid on common shares were \$133 million or \$0.79 per share in 2018, compared to \$125 million or \$0.745 per share in 2017. In 2018, the Company increased its quarterly dividend rate by 5% to \$0.20 per quarter.

The Company has declared and paid the following dividends, on the dates and at the rates shown, since February 17, 2016. Except as prescribed by law, Finning is not subject to any restriction with respect to its ability to declare or pay dividends.

<u>Declaration Date</u>	<u>Date Paid</u>	<u>Rate Per Share</u>
February 17, 2016	March 17, 2016	\$0.1825
May 4, 2016	June 2, 2016	\$0.1825
August 2, 2016	September 1, 2016	\$0.1825
November 2, 2016	December 1, 2016	\$0.1825
February 15, 2017	March 16, 2017	\$0.1825
May 9, 2017	June 8, 2017	\$0.1825
August 8, 2017	September 7, 2017	\$0.19
November 6, 2017	December 7, 2017	\$0.19
February 5, 2018	March 8, 2018	\$0.19
May 25, 2018	June 8, 2018	\$0.20
August 23, 2018	September 6, 2018	\$0.20
November 5, 2018	December 6, 2018	\$0.20
February 20, 2019	March 22, 2019	\$0.20*

* Dividend Payable

8. DESCRIPTION OF CAPITAL STRUCTURE

The authorized share capital of the Company consists of:

- Unlimited number of common shares. As of February 20, 2019, the Company had 164,038,067 common shares issued and outstanding.
- Unlimited number of preferred shares without par value, of which 4,400,000 are designated as cumulative redeemable convertible preferred shares. As of February 20, 2019, the Company had no preferred shares outstanding.

Common Shares

Shareholders are entitled to one vote in respect of each common share held at all meetings of shareholders, other than meetings at which only the holders of another class or series of shares are entitled to vote separately as a class or series. Shareholders are entitled to receive any dividend declared by the Company in respect of the common shares, subject to the rights of the holders of other classes of shares ranking in priority to the common shares. Shareholders will be entitled to receive, subject to the rights of the holders of other classes of shares, the remaining property and assets of the Company available for distribution, after payment of liabilities, upon the liquidation, dissolution or winding-up of the Company, whether voluntary or involuntary. The common shares are not subject to redemption or retraction rights, rights regarding purchase for cancellation or surrender, or any exchange or conversion rights.

Preferred Shares

The preferred shares are issuable in series, with such rights, privileges, restrictions and conditions as may be determined by the Board, including as to the rate or amount of dividends or method of calculating dividends, the dates of payment of dividends, the terms and conditions of redemption, purchase and conversion, if any, or other rights, privileges, restrictions or conditions. Preferred shares of all series have preference over common shares and any other shares ranking junior to the preferred shares with

respect to payment of dividends and distribution of the assets of the Company on liquidation, dissolution or winding-up of the Company, whether voluntary or involuntary. Preferred shares of any series may also be given such other preferences over the common shares as may be determined by the Board. Holders of preferred shares are not entitled to notice of or to vote at meetings of shareholders (except where holders of a specified class or series are entitled to a separate vote or in certain other specified cases).

Shareholder Rights Plan

A shareholder rights plan is in place which is intended to provide all holders of common shares with the opportunity to receive full and fair value for all of their shares if a third party attempts to acquire a significant interest in the Company. The rights plan provides that one share purchase right has been issued for each common share and will trade with the common shares until such time as any person or group, other than a “permitted bidder”, bids to acquire or acquires 20% or more of the common shares, at which time the share purchase rights become exercisable. The rights may also be triggered by a third party proposal for a merger, amalgamation or similar transaction. In May 2017, the rights plan was extended for three years such that it will automatically terminate at the end of the Company’s annual meeting of shareholders in 2020 unless further extended by shareholders prior to that time. The rights plan was also amended to reflect recent amendments made to Canada’s take-over bid regime.

The rights plan will not be triggered if a bid meets certain criteria. These criteria include that:

- the offer is made for all outstanding voting shares of the Company;
- more than 50% of the voting shares have been tendered by independent shareholders pursuant to the bid and not withdrawn (voting shares tendered may be withdrawn until taken up and paid for); and
- the bid expires not less than 105 days after the date of the bid circular, or such shorter period that a take-over bid (that is not exempt from the general take-over bid requirements under applicable securities law) must remain open for deposits of securities thereunder, in the applicable circumstances at such time.

A copy of the plan is available under the Company’s profile on SEDAR at www.sedar.com.

As well, it should be noted that the Company’s dealership agreements with subsidiaries of Caterpillar are fundamental to its business and a change in control of Finning may result in Caterpillar exercising its right to terminate those dealership agreements.

9. CREDIT RATINGS

The current credit ratings ⁽¹⁾ on the Company’s securities are as follows:

	DBRS ⁽²⁾	S&P ⁽³⁾
Short-Term Debt.....	R-2(high)	N/A
Long-Term Debt/Senior Unsecured Debentures and Notes.....	BBB (high)	BBB+

Notes:

- (1) A security rating is not a recommendation to buy, sell or hold securities and may be subject to revision or withdrawal at any time by the rating organization.
- (2) DBRS maintains a stable outlook on the above securities.
- (3) S&P maintains a stable outlook on the above securities.

During the last two years, the Company has paid each of the rating agencies its customary fees in connection with the provision of the above ratings for our outstanding long-term and short-term debt securities. We reasonably expect that such payments will continue to be made for rating services in the future.

9.1 LONG-TERM DEBT CREDIT RATINGS

In September 2018, the Company's long-term rating was re-confirmed at BBB (high) by DBRS with a stable outlook. The BBB (high) rating for the Company is the highest grade or standing within the BBB category of the DBRS rating scale. The BBB (high) category is the 4th highest of ten categories within the DBRS rating scale and reflects long-term debt that is of adequate credit quality. According to DBRS's rating scale, the capacity for the payment of financial obligations is considered acceptable but may be vulnerable to future events.

In November 2018, S&P completed its annual review of the Company's ratings and re-affirmed the BBB+ rating with a stable outlook. The BBB+ rating for the Company is the highest grade or standing within the BBB category of the S&P rating scale. The BBB category is the 4th highest of ten categories within the S&P rating scale and reflects long-term debt obligations that exhibit adequate protection parameters.

9.2 SHORT-TERM DEBT CREDIT RATINGS

In September 2018, the Company's short-term rating was re-confirmed at R-2 (high) rating by DBRS with a stable trend. The R-2 (high) rating is the 4th highest of ten categories within the DBRS short-term debt rating scale and represents short-term debt that is considered to be at the upper end of adequate credit quality. According to DBRS's rating scale, the capacity for the payment of short-term financial obligations as they fall due is considered acceptable but may be vulnerable to future events.

10. MARKETS FOR THE SECURITIES OF THE COMPANY

The common shares are listed on the Toronto Stock Exchange under the symbol FTT. The following table sets forth the high and low closing prices and the volume of common shares traded on the Toronto Stock Exchange during 2018.

<u>Month</u>	<u>High \$</u>	<u>Low \$</u>	<u>Volume</u>
January	36.48	31.66	7,568,900
February	34.97	32.24	11,722,800
March	34.25	30.80	8,895,900
April	33.35	29.77	5,864,600
May	34.10	31.55	7,448,200
June	34.93	31.99	9,469,700
July	34.10	31.60	6,157,100
August	34.37	30.09	9,663,200
September	32.92	29.34	8,573,900
October	33.05	27.09	9,726,900
November	30.41	26.23	13,311,900
December	29.03	22.46	13,802,200

10.1 TRANSFER AGENT AND REGISTRAR

The transfer agent and registrar for the common shares is Computershare which has offices in Montreal, Toronto, Calgary and Vancouver.

11. MATERIAL CONTRACTS

The following sets out a list of all of the Company's material contracts entered into either: (a) within the last financial year; or (b) subsequent to the last financial year and filed as a material contract up to the date of the AIF; or (c) before the last financial year but still in effect, other than (in either case) those contracts entered into before January 1, 2002:

- Unsecured committed credit facility agreement dated December 14, 2018, with the Company and those of its subsidiaries from time to time party to the facility as borrowers, Royal Bank of Canada as Administrative Agent, RBC Europe Limited as European Agent and those institutions from time to time party to the agreement as lenders. This new facility amends Finning's previous \$1 billion credit facility which was set to fully mature in October 2022, by, among other things, extending the maturity date to December 2023, and increasing the credit facility commitment to \$1.3 billion. This credit facility is a source of financing for all global operations.
- A trust indenture dated as of September 29, 2017, between Finning and Computershare Trust Company of Canada pursuant to which Finning issued \$200 million principal amount of 2.84% senior unsecured notes due September 29, 2021.
- Rights Agreement dated as of May 10, 2017, between the Company and Computershare. The Rights Agreement is set to automatically expire after a three-year term, which ends in May 2020. The Rights Agreement sets out the terms and conditions of the Company's shareholder rights plan. It is described in more detail in the Company's 2017 management proxy circular dated March 15, 2017, and in the section entitled "Shareholder Rights Plan" in section 8 "Description of Capital Structure".
- Indenture (Indenture) dated March 22, 1994, between the Company and Computershare Trust Company of Canada and a second supplemental indenture (Second Supplemental Indenture) dated September 23, 1998 between the Company and Computershare Trust Company of Canada. The Indenture and the Second Supplemental Indenture relate to the Company's MTN. The terms of these agreements were fully described in the Company's final short form prospectus dated May 22, 2012, and pricing supplement No. 1 dated May 13, 2012, and pricing supplement No. 2 dated June 18, 2013.
- Note purchase agreement dated as of May 22, 2013, between Finning and various note purchasers pursuant to which Finning issued £70 million principal amount of 3.40% senior notes, Series F, due May 22, 2023.
- Note purchase agreement dated as of April 3, 2012, between Finning and various note purchasers pursuant to which Finning issued: (a) U.S. \$50 million principal amount of 4.18% Series C senior notes due April 3, 2022; (b) U.S. \$50 million principal amount of 4.28% Series D senior notes due April 3, 2024; and (c) U.S. \$200 million principal amount of 4.53% Series E senior notes due April 3, 2027.
- Note purchase agreement dated as of January 19, 2012, between Finning and various note purchasers pursuant to which Finning issued: (a) U.S. \$100 million principal amount of 3.98% Series A senior notes due January 19, 2022; and (b) U.S. \$100 million principal amount of 4.08% Series B senior notes due January 19, 2024.

12. DIRECTORS AND OFFICERS

12.1 DIRECTORS AS OF FEBRUARY 21, 2019

The name, municipality of residence and principal occupation during the past five years of each director of the Company are described as follows.

Name and Municipality of Residence	Principal Occupation During the Past Five Years	Year First Became Director ⁷
Vicki L. Avril ^{1, 3} Hinsdale, IL, USA	Corporate Director	2016
Marcelo A. Awad ^{1, 3} Santiago, Chile	Corporate Director	2014
James E.C. Carter ^{2 (chair), 4} Edmonton, AB, Canada	Corporate Director	2007
Jacynthe Côté ^{2, 3 (chair)} Candiac, PQ, Canada	Corporate Director President & Chief Executive Officer, Rio Tinto Alcan, 2009 – 2014	2014
Nicholas Hartery ^{2, 4 (chair)} Limerick, Republic of Ireland	Chairman, CRH plc, since 2004 President & Chief Executive Officer, Prodigium LLC, a consulting firm, since 2009	2014
Mary Lou Kelley ^{2, 3} Minneapolis, MN, USA	Corporate Director President, e-commerce, Best Buy Company, 2014 – 2017 Senior Vice President, Chico's FAS Inc., 2010 – 2014	2018
Harold N. Kvisle ^{2, 4, 5} Calgary, AB, Canada	Corporate Director President & Chief Executive Officer, Talisman Energy Inc., 2012 – 2015	2017
Stuart L. Levenick ^{1 (chair), 4} Peoria, IL, USA	Corporate Director Group President, Caterpillar Inc., 2004 – 2014	2016
Kathleen M. O'Neill ^{1, 4} Toronto, ON, Canada	Corporate Director	2007
Christopher W. Patterson ^{1, 3} Estero, FL, USA	Corporate Director	2010

Name and Municipality of Residence	Principal Occupation During the Past Five Years	Year First Became Director ⁷
Edward R. Seraphim ⁶ Vancouver, BC, Canada	Chief Executive Officer, West Fraser Timber Company Limited, a forestry company, since 2018 President and Chief Executive Officer of West Fraser Timber Company Limited, a forestry company, 2013 – 2018	2019
L. Scott Thomson ³ Vancouver, BC, Canada	President & Chief Executive Officer, Finning International Inc., since 2013	2013

1 Member, Audit Committee.

2 Member, Human Resources Committee.

3 Member, Safety, Environment & Social Responsibility Committee.

4 Member, Corporate Governance Committee.

5 Board Chair, effective January 15, 2019.

6 Appointed effective January 15, 2019. Member, Audit Committee and member Safety, Environment & Social Responsibility Committee effective February 5, 2019.

7 The Directors of the Company are elected each year at the annual meeting of the Company and hold office until the close of the next annual meeting or until their successors are elected or appointed.

The Company currently has four committees of the Board: the Audit Committee, the Human Resources Committee, the Safety, Environment & Social Responsibility Committee, and the Corporate Governance Committee. The members of each committee are indicated by footnote in the list of directors above.

The term of office of all current directors will end on the day of the next annual meeting of the Company's shareholders.

12.2 OFFICERS AS OF FEBRUARY 21, 2019

Officers are listed in the table below with their principal occupations held for the past five years:

Officer's Name and Municipality of Residence	Principal Occupation During the Past Five Years
David W. Cummings Vancouver, BC, Canada	Chief Information Officer, Finning International Inc., since 2013
Chad Hiley Edmonton, AB, Canada	Chief Human Resources Officer, Finning International Inc., since 2016 Senior Vice President, Human Resources, Finning Canada, 2014 - 2018 Vice President, Organization Effectiveness, Barrick Gold Corporation (South America), 2011 – 2014
Marcello Marchese Santiago, Chile	President, Finning South America, since 2012

Officer's Name and Municipality of Residence	Principal Occupation During the Past Five Years
Anna P. Marks North Vancouver, BC, Canada	Senior Vice President, Corporate Controller, Finning International Inc., since 2008 Senior Vice President, Corporate Controller & Treasurer, Finning International Inc., 2015 - 2018
H. Jane Murdoch Vancouver, BC, Canada	General Counsel & Corporate Secretary, Finning International Inc., since November 2016 General Counsel, Finning International Inc., since April 2016 Partner, Cassels Brock & Blackwell LPP, 2012 – 2016
Steven M. Nielsen Seattle, WA, USA	Executive Vice President & Chief Financial Officer, Finning International Inc., since 2015 Managing Partner, Innovant Operating Company, 2013 – 2015
Kevin Parkes Edmonton, AB, Canada - since January 2019; Staffordshire, UK, 2015 to 2018)	President, Finning Canada, since 2019 Managing Director, Finning UK & Ireland, 2016 - 2018 Director, Equipment Solutions, Finning UK & Ireland, 2015 - 2016 Chief Executive Officer, Hewden Stuart Ltd., 2010 – 2015
David Primrose Birmingham, UK – since January 2019; Abbotsford, BC, 2014 - 2018	Managing Director, Finning UK & Ireland, since 2019 Executive Vice President Core Industries, Finning Canada, 2014 – 2018
L. Scott Thomson West Vancouver, BC, Canada	President & Chief Executive Officer, Finning International Inc., since 2013

12.3 SHAREHOLDINGS OF DIRECTORS AND OFFICERS

As of February 20, 2019, the directors and officers of the Company as a group beneficially owned, directly or indirectly, or exercised control or direction over 398,823 common shares, representing approximately 0.24% of the outstanding common shares.

12.4 CEASE TRADE ORDERS, BANKRUPTCIES, PENALTIES OR SANCTIONS

To the knowledge of the Company, no director or executive officer of the Company and, for (b), (c) and (d) below, no securityholder holding a sufficient number of securities to materially affect the control of the Company:

- (a) is, at the date hereof or has been, within the 10 years before, a director, chief executive officer or chief financial officer of any company (including Finning), that while that person was acting in that capacity:
 - (i) was the subject of a cease trade or similar order or an order that denied the relevant company access to any exemption under securities legislation, for more than 30 consecutive days, or

- (ii) was subject to an event that resulted, after the director or executive officer ceased to be a director, chief executive officer or chief financial officer, in the company being the subject of a cease trade or similar order or an order that denied the relevant company access to any exemption under securities legislation, for more than 30 consecutive days, or
- (b) is, as at the date hereof or has been, within the 10 years before, a director or executive officer of any company (including Finning), that while that person was acting in that capacity or within a year of that person ceasing to act in that capacity, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets;
- (c) has, within the 10 years before the date hereof, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or become subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold the assets of the director or executive officer; or
- (d) has been subject to any penalties or sanctions imposed by a court relating to securities legislation or by a securities regulatory authority or has entered into a settlement agreement with a securities regulatory authority or been subject to any other penalties or sanctions imposed by a court or regulatory body that would likely be considered important to a reasonable investor in making an investment decision.

13. INTERESTS OF EXPERTS

Deloitte LLP is the auditor of the Company and is independent within the meaning of the Rules of Professional Conduct of the Institute of Chartered Accountants of British Columbia.

14. INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

To the knowledge of the Company, no director or executive officer of the Company, nor any person or company that beneficially owns, controls, directs, directly or indirectly, more than 10% of our common shares, nor any associate or affiliate of any of the foregoing persons, has or had a material interest in any transaction within the three most recently completed financial years or during the current financial year that has materially affected or is reasonably expected to materially affect the Company.

15. AUDIT COMMITTEE

The Terms of Reference for the Audit Committee (attached as Appendix A to this AIF) require that the Audit Committee be comprised of at least three directors, all of whom must be independent. The current members of the Committee are Vicki L. Avril, Marcelo A. Awad, Stuart L. Levenick (Chair), Kathleen M. O'Neill, Christopher W. Patterson and Edward R. Seraphim and all are independent directors. In addition, the Board Chair attends meetings of the Audit Committee. All Committee members are required to be independent and financially literate (as such terms are defined in National Instrument 52-110 – *Audit Committees*) and at least one member is required to have accounting or related financial management expertise. Ms. Vicki L. Avril and Ms. Kathleen M. O'Neill are the designated “financial expert” members of the Audit Committee and all Audit Committee members are financially literate.

In addition to each member's general business experience, the education and experience of each member of the Audit Committee that is relevant to the performance of their responsibilities as a member of the Audit Committee is set forth below.

Vicki L. Avril is a Corporate Director. Ms. Avril retired from IPSCO Tubulars Inc. in 2013 after nine years, including five years as President and CEO. Prior to 2008, she held progressively senior executive positions with IPSCO Inc., including Senior Vice President of IPSCO Tubulars Operations and Chief Financial Officer of IPSCO Inc. Prior to 2004, Ms. Avril served as Chief Financial Officer for Wallace Computer Services and as a senior officer at Inland Steel Industries in various financial and strategy roles, including Chief Financial Officer, Treasurer, and head of Corporate Planning. Ms. Avril is a director of Commercial Metals Company, Global Brass and Copper Holdings, Inc. and Greif, Inc.

Ms. Avril graduated from the University of Illinois with a Bachelor of Science degree in Accountancy and a Master of Business Administration degree from the University of Chicago.

Marcelo A. Awad is a Corporate Director and serves as a senior advisor to Mitsubishi Corporation Investments and is an Executive Director of Wealth Minerals Ltd. Mr. Awad spent 16 years with Antofagasta Minerals SA and served as President & Chief Executive Officer for over seven years until his departure in 2012. Prior to joining Antofagasta Minerals, Mr. Awad spent 18 years with Codelco in progressively senior positions in both London and Chile until leaving his position of Executive Vice President, Copper Trading & Futures in 1996. In London, Mr. Awad was a director of the London Metal Exchange. He currently serves on the boards of AC Perforaciones, a drilling services company, Echeverria Izquierdo S.A., a Chilean engineering and construction company, and Partners in Performance (PIP) in the Americas, an Australian consulting company. He is also the chairman of the Audit Committee of Echeverria Izquierdo S.A.

Mr. Awad holds a Civil Engineering degree and is a graduate of Universidad Tecnica del Estado and is fluent in English and Spanish.

Stuart L. Levenick is a Corporate Director. Mr. Levenick retired from Caterpillar in 2015 after 37 years, including 10 years as Group President. His most recent responsibility included leadership of customer and dealer support for Caterpillar. Other responsibilities during his tenure as Group President included management of businesses spanning marketing, manufacturing operations, engineering, supply chain, procurement and human resources. Prior to becoming Group President in 2004, Mr. Levenick served as Vice President, Caterpillar, and Chairman of Shin Caterpillar Mitsubishi Ltd. from 2000 to 2004, and as Vice President, Asia Pacific Division, from 2001 to 2004. Prior to 2000, he held various senior positions with Caterpillar in North America, Asia and Europe. Previously, he held positions as Chairman of the Association of Equipment Manufacturers, Executive Director of the United States Chamber of Commerce, and director of the U.S./China Business Council and the U.S./Russia Business Council. Currently, Mr. Levenick is the lead director of Entergy Corporation, the lead director of W.W. Grainger, Inc. and a director of the University of Illinois Foundation.

Mr. Levenick graduated from the University of Illinois with a Bachelor of Science degree in Forestry and is a Sloan Fellow with a Master of Science degree in management from the Massachusetts Institute of Technology.

Kathleen M. O'Neill is a Corporate Director and experienced Audit Committee Chair. Prior to 2005, Ms. O'Neill was an Executive Vice-President at BMO Financial Group where her most recent position was Executive Vice-President, Personal & Commercial Development and Head of Small Business Banking. Prior to joining BMO Financial Group in 1994, Ms. O'Neill was with PricewaterhouseCoopers LLP for 19 years including eight years as a tax partner. Ms. O'Neill currently serves on the Board of Directors of ARC Resources Limited and Ontario Teachers' Pension Plan and is Chair of the Audit Committee at both organizations. Ms. O'Neill is past Chair of St. Joseph's Health Centre and St. Joseph's Health Centre Foundation.

In 2005, Ms. O'Neill was accredited through the Institute of Corporate Directors / Rotman School of Management Directors' Education Program. She is on the Ontario Advisory Council and the Accounting Policy Advisory Committee for the Institute of Corporate Directors (ICD). She holds a Bachelor of Commerce degree (with Honours) from the University of Toronto and is a Fellow of the Ontario Institute of Chartered Accountants (FCPA). Ms. O'Neill was selected as one of Canada's most powerful women by the Women's Executive Network for 2014, 2015 and 2016 and was inducted into the Women's Executive Network Hall of Fame in 2017.

Christopher W. Patterson is a Corporate Director. From April 2005 until his retirement in June 2009, he was President and Chief Executive Officer of Daimler Trucks North America LLC. Prior to 2005, he held progressively senior executive positions with Freightliner LLC, predecessor to Daimler Trucks North America, including Senior Vice President, Service and Parts, and was Executive Vice President, Sales and Marketing of Volvo Trucks North America. Mr. Patterson is also a director of CAX Parent, LLC, Modine Manufacturing Company and FleetPride Inc. Mr. Patterson holds a Bachelor of Arts degree in Economics and an MBA from the University of Western Ontario.

Edward R. Seraphim was appointed to the Audit Committee February 5, 2019. Mr. Seraphim is Chief Executive Officer and a director of West Fraser Timber Company Limited and has held these positions since 2013. Prior to becoming Chief Executive Officer, Mr. Seraphim held the roles of President and Chief Operating Officer and Vice President, Pulp & Paper. Prior to joining West Fraser, he worked for Fletcher Challenge Canada from 1985 to 1997. Mr. Seraphim has over 30 years of operations, marketing and sales experience in the forest products industry. Mr. Seraphim is the Chairman of the Council of Forest Industries, a board member of Softwood Lumber Board, British Columbia Lumber Trade Council and the Forest Products Association of Canada. Mr. Seraphim holds a Bachelor of Commerce degree from the University of British Columbia and is a Chartered Accountant.

The Audit Committee provides assistance to the Board in fulfilling its oversight responsibility to the shareholders with respect to the Company's: (a) financial statements; (b) financial reporting process; (c) systems of internal control over financial reporting and disclosure controls and procedures; (d) internal audit function; (e) external audit function; (f) financial arrangements and liquidity; (g) risk identification, assessment and management program and (h) pension plans. It is the responsibility of the Audit Committee to maintain an open avenue of communication between itself, the external auditors, the internal auditors and management of the Company. In performing its role, the Committee is empowered to investigate any matter brought to its attention, with full access to all books, records, facilities and personnel of the Company. It is also empowered to retain outside counsel or other experts as required.

The Committee met four times in 2018 in conjunction with regularly scheduled Board meetings.

15.1 AUDIT FEES

Fees paid or accrued by the Company and its major business units or subsidiaries for audit and other services provided by Deloitte LLP (the Company's external auditor) during 2018 and 2017 were as follows:

Type of Service	2018*	2017*
Audit Fees ⁽¹⁾	3,375,176	\$3,070,911
Audit-Related Fees ⁽²⁾	104,214	115,303
Tax Fees ⁽³⁾	-	535
All Other Fees ⁽⁴⁾	<u>46,189</u>	<u>63,213</u>
Total:	<u>3,525,579</u>	<u>\$3,249,962</u>

* amounts were billed in various currencies and converted to Canadian dollars using the exchange rates in existence at the time of billing

Notes:

- (1) Audit fees generally relate to fees charged for the annual audit, interim reviews, administrative charges and other services related to the performance of the annual audit of our financial statements.
- (2) Audit related fees generally relate to fees charged for assurance and related services, such as audits of Finning's pension plans, due diligence in connection with debt offerings and other services regulators require of auditors.
- (3) Tax fees include fees charged for foreign tax advice and filings for corporate directors.
- (4) All other fees generally relate to fees charged for any non-audit related or non-tax services. The 2018 fees related to advisory services with respect to an insurance claim. The 2017 fees primarily relate to advisory services with respect to information technology security.

15.2 Pre-approval Policies and Procedures

The Audit Committee has adopted a formal policy requiring the pre-approval of non-audit services to be provided by its external auditors, Deloitte LLP, prior to the commencement of the engagement. On an annual basis, the Audit Committee pre-approves non-audit and tax related services to be provided by the Company's external auditors. Between regularly scheduled Audit Committee meetings, the Audit Committee has delegated to the Chair of the Audit Committee the authority to approve individual non-audit service engagements up to a value of \$100,000 per quarter that have not been pre-approved. All engagements where such approval was granted are reported at the next Audit Committee meeting. Under no circumstances will Finning's management engage the external auditors to perform services that have not been approved by the Audit Committee. Management and the external auditor are required to report quarterly to the Audit Committee all services provided by the external auditor and fees paid or accrued for the quarter and the fiscal year.

The Audit Committee determined that the provision of the audit-related, tax and other services described above did not compromise the independence of Deloitte LLP for purposes of performing audit services for the Company.

16. ADDITIONAL INFORMATION

Additional information, including directors' and officers' remuneration, and indebtedness, principal holders of the Company's securities and securities authorized for issuance under equity compensation plans is contained in the Company's Management Proxy Circular for its most recent annual meeting of shareholders, a copy of which may be obtained upon request to the General Counsel & Corporate Secretary

of the Company. Additional financial information is provided in the Company's annual consolidated financial statements for its year ended December 31, 2018 and its accompanying MD&A.

Copies of documents noted above and other disclosure documents may also be examined and/or obtained through the internet by accessing the Company's website at www.finning.com or by accessing the Company's profile on SEDAR at www.sedar.com.

Appendix A

Finning International Inc.

Audit Committee Terms of Reference

I. MANDATE

- A.** Primary responsibility for financial reporting, information systems, risk management, internal control over financial reporting and disclosure controls and procedures, and the pension plans of the Corporation is vested in management and is overseen by the Board.
- B.** The primary mandate of the Audit Committee (the “Committee”) is to assist the Board in fulfilling its oversight responsibilities to the shareholders, potential shareholders, and other stakeholders of Finning International Inc. (the “Corporation”) with respect to:
- i) the integrity of annual and quarterly financial statements that will be provided to the shareholders and others;
 - ii) audits of the financial statements;
 - iii) the systems of internal control over financial reporting and disclosure controls and procedures established by management and the Board;
 - iv) all audit, accounting, financial reporting and risk management processes;
 - v) compliance with accounting and finance based legal and regulatory requirements, relevant laws, regulations and policies;
 - vi) the External Auditors’ qualifications and independence;
 - vii) the internal and external audit processes and performance of the Internal Auditor and External Auditor;
 - viii) the Corporation’s pension plans; and
 - ix) the implementation and effectiveness of the Ethics Program Charter and the compliance program under the Ethics Program Charter.
- C.** It is the Committee’s responsibility to maintain an open avenue of communication between the Committee, the External Auditors, the Internal Auditors and management of the Corporation. At each meeting, the Committee may meet separately with management and will meet in separate closed sessions with only independent directors in attendance, with the External Auditor, and with the Internal Auditor.
- D.** In discharging its oversight role, the Committee is empowered to investigate any matter brought to its attention, with full access to all books, records, facilities, and personnel of the Corporation and the power to retain outside counsel or other experts for this purpose.

II. COMPOSITION AND OPERATIONS

- A.** The Committee shall consist of at least three directors of the Corporation, all of whom shall be independent as defined in National Instrument 52-110 Audit Committees (“N1 52-110”).

The Board, on the recommendation of the Corporate Governance Committee, will appoint and remove the Committee members by a majority vote.

- B.** The Board, on the recommendation of the Corporate Governance Committee and Board Chair, will appoint the Chair of the Committee from the Committee members by a majority vote. The Chair of the Committee will hold such position until otherwise determined by the Board.
- C.** All Committee members shall be financially literate, (or shall become financially literate within a reasonable period of time after appointment to the Committee) as required by NI 52-110, and at least one member shall be designated as an “Audit Committee Financial Expert”¹.
- D.** The Committee shall meet not less than four times per year. Meetings of the Committee may be held in person or via remote communications, subject to the By-laws of the Corporation. The Committee shall meet at the call of the Committee Chair. Any two Committee members may request the Committee Chair to call a meeting of the Committee and, if the Committee Chair fails to do so, may call a meeting of the Committee.
- E.** A majority of Committee members constitutes a quorum.
- F.** Decisions of the Committee shall be by majority vote.
- G.** The function of the Committee is oversight. It is not the duty of the Committee to plan or conduct audits or to determine that the Corporation’s financial statements fairly present the Corporation’s financial position and results of operation and are in accordance with generally accepted accounting principles. Such duties remain the responsibility of management and the External Auditor.

¹ Based on the definition in rules passed by the SEC under the United States Sarbanes-Oxley Act of 2002: An Audit Committee Financial Expert is a person who has, through (a) education and experience as a principal financial officer, principal accounting officer, controller, public accountant or auditor or experience in one or more positions that involve the performance of similar functions; (b) experience actively supervising such a person, or experience overseeing or assessing the performance of companies or public accountants with respect to the preparation, auditing or evaluation of financial statements; or (c) other relevant experience:

- 1) an understanding of financial statements and generally accepted accounting principles;
- 2) an ability to assess the general application of such principles in connection with the accounting for estimates, accruals and reserves;
- 3) experience preparing, auditing, analyzing or evaluating financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of issues that can reasonably be expected to be raised by the Corporation’s financial statements, or experience actively supervising one or more persons engaged in such activities;
- 4) an understanding of internal controls and procedures for financial reporting; and
- 5) an understanding of audit committee functions.

III. DUTIES AND RESPONSIBILITIES

Subject to the powers and duties of the Board, the Committee will perform the following duties:

A. Financial Statements and Other Financial Information

The Committee shall:

- i) review and discuss with management and the External Auditor before public disclosure:
 - a) the consolidated annual and interim financial statements of the Corporation, including the notes to the financial statements;
 - b) management's discussion and analysis (MD&A); and
 - c) news releases regarding the quarterly and annual financial results of the Corporation;
- ii) review and recommend to the Board for approval and for public disclosure the annual and interim MD&A, consolidated financial statements and notes and related news releases of the Corporation;
- iii) review and recommend to the Board for approval whether to declare a quarterly dividend, and if a quarterly dividend is recommended, the amount;
- iv) satisfy itself that adequate procedures are in place for review of the public disclosure of financial information extracted or derived from the Corporation's financial statements and periodically assess the adequacy of those procedures;
- v) receive quarterly updates and reports on the Corporation's global cash positions, access to capital, compliance with debt covenants and Treasury policies, as well as credit status with banks and credit rating agencies;
- vi) discuss with management and the External Auditor the quality of reporting and adherence to generally accepted accounting principles (GAAP);
- vii) review significant reporting principles, practices and procedures applied by the Corporation in preparing its financial statements, including any newly adopted accounting policies and the reasons for their adoption;
- viii) review changes in the Corporation's selection or application of accounting principles, and major issues as to the adequacy of the Corporation's internal controls and any special audit steps adopted in light of material control deficiencies;
- ix) review analyses prepared by management and/or the External Auditor setting forth significant financial reporting issues and accounting judgments and estimates made in connection with the preparation of the financial statements, including analyses of the effects of alternative GAAP methods on the financial statements; and
- x) review information related to special transactions requiring public filings (e.g., prospectus, business acquisition report, Corporation's issuer bid circular) prior to their release and recommend approval to the Board.

B. External Auditor

The Committee has the authority and responsibility to recommend to the Board the appointment and, where appropriate, replacement of the External Auditor, and to determine compensation of the External Auditor, subject to shareholder approval where required. In that respect, the Committee shall:

- i) recommend to the Board the appointment and, where appropriate, replacement of the Corporation's External Auditor;
- ii) require the External Auditor to report directly to the Committee at each quarterly meeting, and otherwise to the Committee or to the Committee Chair as required;
- iii) communicate directly with the External Auditor, and meet independently with the External Auditor with and without management present;
- iv) evaluate the External Auditor's qualifications, performance, and independence and in that connection perform the following duties:
 - a) on an annual basis, obtain and review a report by the External Auditor describing any material issues, defects, restrictions or sanctions raised or imposed by the most recent internal quality-control review, or peer review, of the External Auditor, or by any inquiry or investigation by governmental or professional authorities or board within the preceding five years with respect to one or more independent audits carried out by the External Auditor or otherwise arising, and any steps taken to deal with any such issues, defects, restrictions or sanctions;
 - b) ensure that the External Auditor submits, at least annually or on a periodic basis, to the Committee a formal written statement delineating all relationships between the External Auditor and the Corporation including the extent and amount of fees received by the External Auditor for audit services and for non-audit services on a quarterly basis;
 - c) actively engage in a dialogue with the External Auditor with respect to any disclosed relationships or services that may impact the objectivity and independence of the External Auditor as prescribed by the Canadian Public Accountability Board (CPAB) or other applicable professional accounting or regulatory agency;
 - d) review and confirm with management and the External Auditor: the timing and process for implementing the rotation of the lead audit partner of the External Auditor as required by the applicable rules governing the audit profession as set out by the CPAB, the CPA Canada or other applicable professional regulatory agencies; and the review of External Auditor resources providing audit services to the Corporation;
 - e) review with the External Auditor any hiring by the Corporation (whether as employees or Directors) of partners, former partners, or audit managers of the External Auditor;
 - f) review with the External Auditor any audit issues or difficulties with respect to the audit and management's response; and
 - g) annually conduct an assessment of the External Auditor. This assessment shall include audit quality considerations (auditor independence, objectivity, and professional skepticism, quality of engagement team, CPAB inspection findings, communication and interaction with the external auditor) and quality of service considerations. At least once every

five years, a comprehensive review of the External Auditor shall be conducted.

The Committee shall report its conclusions on the performance and independence of the External Auditor to the Board, including any recommendations on any appropriate action to be taken to satisfy the requirement of the External Auditor's independence. When necessary, the Committee may recommend the removal of the External Auditor to the Board and may periodically issue a request for proposal from other external audit firms;

- v) review and approve the scope and plans relating to the External Auditor's annual audit and quarterly reviews including the adequacy of resources, and recommend the External Auditor's annual compensation for approval by the Board of Directors. The External Auditor shall report to the Committee and obtain approval of all significant changes to the approved audit plan;
- vi) on at least a quarterly basis, meet separately with the External Auditor, with and without management present, to review and discuss the results of the audit, audit-related services, tax and other services performed by the External Auditor in the prior quarter;
- vii) require pre-approval of all audit and non-audit services performed by the External Auditor that are permitted under applicable law and are in accordance with the Corporation's *Approval of Audit and Non-Audit Services Provided by the Independent Auditor Policy*. This policy shall be approved and renewed annually by the Committee. Between scheduled Committee meetings, the Chair of the Committee, on behalf of the Committee, is authorized to approve the fees and terms of any audit or non-audit services, up to a value of \$100,000 per quarter that are not pre-approved. At the next Committee meeting, the Chair shall report to the Committee any such pre-approval given;

- viii) annually obtain and review a report by the External Auditor describing recommendations resulting from their review of internal control and accounting systems, and obtain and review a quarterly follow-up report from management on actions taken concerning recommendations made by the External Auditor;
- ix) in accordance with the Protocol for Audit Firm Communication of CPAB Inspection Findings, annually obtain from the External Auditor the Public Report issued by CPAB on inspections of the quality of audits conducted by public accounting firms; and
- x) if CPAB inspects the Corporation's audit file, require the External Auditor to provide the Committee with a description of the focus areas selected for inspection by CPAB and any significant inspection findings by CPAB, and discuss with the External Auditor any significant inspection findings reported by CPAB, including their disposition and a description of the actions taken by External Auditor.

C. Internal Auditors

The Committee will:

- i) review the activities, resources and organization structure of the internal audit function and ensure no unjustified restrictions or limitations are made;
- ii) participate in the appointment, promotion or dismissal of the lead Internal Auditor; and discuss with the External Auditor the standard of work of the Internal Auditors;
- iii) participate in the annual performance and compensation review of the lead Internal Auditor;
- iv) review the effectiveness and independence of the internal audit function;
- v) meet separately with the lead Internal Auditor to discuss any matters the Committee or the lead Internal Auditor believes should be discussed privately;
- vi) ensure the internal audit's significant findings and recommendations are received, discussed and appropriately acted on by management;
- vii) review and approve the scope and proposed annual internal audit plan, resourcing plan and financial budget and ensure they adequately address key areas of risk and that there is appropriate coordination with the Committee and the External Auditor;
- viii) review and approve the Internal Audit Charter on an annual basis; and
- ix) review periodic reports from internal audit addressing
 - a) progress on the Internal Audit Plan, including any significant changes to it;
 - b) significant internal audit findings, including issues as to the adequacy of internal control over financial reporting and any procedures implemented in light of significant control deficiencies; and
 - c) any significant internal fraud issues.

D. Risk Management, Internal Controls and Disclosure Controls and Procedures

The Committee will review and obtain reasonable assurance that the risk management systems, internal controls over financial reporting and disclosure controls and procedures are operating effectively to produce accurate, appropriate and timely management and financial information. This includes:

- i) discussion with management and the Internal Auditor of the guidelines and policies with respect to risk assessment and risk management, including the processes management used to assess and manage the Corporation's risk. Discuss major financial risk exposures and steps management has taken to monitor and control such exposures including an annual review of the significant insurable risks and the adequacy of the Corporation's insurance coverage and approval of its annual insurance premium;
- ii) discussion with management, the Internal Auditors and the External Auditors of the adequacy and effectiveness of the internal controls, including financial controls and disclosure controls and procedures, and the Corporation's system to monitor and manage business risk and produce reliable financial statements and public disclosure; and
- iii) obtaining reasonable assurance that the risk management systems, internal controls over financial reporting and disclosure controls and procedures are reliable and secure and that the systems of internal controls are properly designed and effectively implemented through discussions with and reports from management, the Internal Auditor and External Auditor.

E. Compliance

The Committee shall:

- i) assist with Board oversight of the Corporation's compliance with legal and regulatory requirements by receiving a report concerning legal and regulatory matters that may have a material impact on the financial statements;
- ii) review the process for the certification of the interim and annual financial statements by the Chief Executive Officer (CEO) and Chief Financial Officer (CFO), and the certifications made by the CEO and CFO;
- iii) review with Management, Internal Auditor and External Auditor the Corporation's internal control over financial reporting and disclosure controls and procedures, any significant deficiencies or material weaknesses in their design or operation, any proposed major changes to them and any fraud involving management or other employees who have a significant role in the Corporation's internal control over financial reporting;
- iv) discuss the Corporation's compliance with tax laws, regulatory requirement, including the review of significant tax strategies or structures legal withholdings requirements, privacy laws, and any other area of compliance monitoring that the Committee considers appropriate;
- v) ensure the External Auditor's fees are disclosed by category in the Annual Information Form in compliance with regulatory requirements and in such other documents the Committee may determine;

- vi) review any specific policies or procedures adopted for pre-approving non-audit services by the External Auditor, including affirmation that they meet regulatory requirements;
- vii) prepare a report of the Committee's activities to be included in the annual proxy statement; and
- viii) assist the Corporate Governance Committee with preparing the Corporation's governance disclosure by ensuring it has current and accurate information with respect to:
 - a) the independence of each Committee member relative to regulatory requirements for the Audit Committee;
 - b) the state of financial literacy of each Committee member, including the name of any member(s) currently in the process of acquiring financial literacy and when they are expected to attain this status;
 - c) the education and experience of each Committee member relevant to his or her responsibilities as a Committee member; and
 - d) whether the Corporation has relied upon any exemptions to the requirements for Audit Committees under regulatory requirements.

F. Pension Plans

The Committee shall:

- i) review the governance structure set out for the Corporation's pension plans, at least annually, and recommend to the Board any changes to the structure, upon considering any recommendation of the Management Pension Committee;
- ii) review the Terms of Reference for the Management Pension Committee and monitor compliance by the Management Pension Committee with their terms of reference on an annual basis, and approve any recommended changes;
- iii) review a summary of the funding policies on an annual basis and approve any material exceptions or changes to those policies upon recommendation by the Management Pension Committee;
- iv) review a summary of the investment policies and strategies for the defined benefit and defined contribution plans on an annual basis and approve, for the Canadian plans, any changes which could materially impact the financial performance of those plans upon recommendation by the Management Pension Committee;
- v) review a summary of the Canadian Journey Plan outlining the de-risking progression intended for the Canadian defined benefit plans on an annual basis and approve any material changes upon recommendation by the Management Pension Committee;
- vi) review reports from the Management Pension Committee at least semi-annually regarding:
 - a) overall financial positions and investment performance results of the various pension plans;

- b) any changes to investment managers or other service providers; and
 - c) other notable Management Pension Committee actions since the prior report.
- vii) with respect to plan design and amendments:
- a) recommend, jointly with the Human Resources Committee, the establishment of new pension plans or termination of any existing plans, to the Board of Directors; and
 - b) approve financially significant plan amendments, jointly with the Human Resources Committee, if the amendments fundamentally change the nature of the benefits a plan provides.

Recommendations for such plan amendments will come from the Management Pension Committee unless a conflict or special situation is identified in which case the CEO will determine the recommendation source.

G. Other

The Committee shall:

- i) periodically review the Ethics Program Charter and approve any amendments as recommended by management's Global Ethics Committee, ensuring that the Ethics Program Charter includes procedures for:
 - a) the receipt, retention and anonymous treatment of complaints received by the Corporation regarding accounting, internal accounting and financial reporting controls, or auditing matters;
 - b) the confidential, anonymous submission by employees of concerns regarding questionable accounting or auditing matters; and
 - c) addressing a report of a material breach of securities law, material breach of fiduciary duty or similar material violation.
- ii) annually review management's report on the Global Ethics Committee self-assessment;
- iii) review expenses of the Board Chair and CEO;
- iv) on an annual basis, review and approve key Treasury policies (Global Investment Policy, the Global Debt and Interest Rate Management Policy, the Global Foreign Exchange Risk Management Policy), and the Requests for Approval of Capital Expenditures Policy;
- v) annually review and evaluate the Code of Ethics ("Code") for Senior Executives and Financial Management, and:
 - a) recommend material changes required to be made to the Code to the Board of Directors for approval; and
 - b) monitor compliance and report any waivers of the Code to the Board of Directors;

- vi) review on an annual basis, and recommend any material changes to the capital structure plan to the Board for approval;
- vii) review and recommend to the Board for approval, new or refinancing of material financing contracts;
- viii) review and approve the Non-GAAP Financial Measures Policy at least once every three years, or sooner if revisions may be necessary due to a change in practice or regulation.
- ix) review and approve all related party transactions;
- x) review the effect of regulatory and accounting initiatives, as well as off balance sheet structures, on the financial statements of the Corporation; and
- xi) review the succession plan for the Corporation's financial and accounting management.

IV. ACCOUNTABILITY

- A.** The Committee Chair has the responsibility to make periodic reports to the Board, as requested, on financial matters relevant to the Corporation.
- B.** The Committee shall report its discussions and activities to the Board by maintaining minutes of its meetings and providing an oral report at each regular Board meeting.
- C.** The Committee shall:
 - i) conduct a self-assessment annually and discuss the results with the Board; and
 - ii) review and update its terms of reference at least annually.